

Challenge

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letters TO THE EDITOR

Recognize the elemental

• We were extremely interested in your February *Challenge Notes*: "The economics of Sputnik; the pain of work."

Education is definitely hard work. If we want our children educated enough to be able to choose careers in science, we must begin teaching them in the primary grades. It is too late to begin in high school.

The root of our education problem is in the elementary school. To upgrade elementary education we must reinstate discipline; teach one-half hour per day of systematic phonetics in grades one, two and three; reinstate A, B, C, D, F report cards marked on achievement; reinstate required standards at each grade level; group the children in rooms according to point of progress at each grade level; and cut back on the psychological approach.

MRS. DON DAVIDSON
Minneapolis, Minn.

Different impressions

• Your impression of Benson doesn't jibe with mine. [*Personality-of-the Month*, March, 1958.] His program was never set up to work, and he and a majority of Republicans were too dumb to figure it out. They wanted the farmer to stabilize the

cost of living by taking a cut while granting labor and industry yearly increases in wages and prices, despite the Kefauver committee's report that these hikes were unnecessary. Benson played the farmers for suckers.

What's more, according to farm magazines, five million have been driven off the farms in the last seven years—nearly two million in 1955.

There's a lot of hullabaloo now that the depression is spreading to industry. But who in government or business has cared about what was happening to the farmer during the last five years? Strange it hasn't occurred to anyone that this present economic slump was in large part caused by destroying the farmer's purchasing power.

CARL PORTZ
Newcomerstown, Ohio

Whistle while you work?

• I would like to take issue with your February, 1958 *Challenge Notes*.

Either I disagree, or I am not quite sure of the interpretation of the last paragraph which states in part:

"Just as business is finding out that, contrary to cherished belief,

a "happy" worker is not necessarily a productive worker, so we shall have to rediscover the old truth that education, like growing up, can never be a completely painless process. . ."

What is the writer's use of the word, "happy"? I note that he has the word in quotation marks. Yet, a *happy* worker may not necessarily be the most productive worker, but he is producing—in my estimation.

Within the context of the article, the writer, though making some very interesting comparisons, nevertheless is relating on a subject of the psychological trend taking place in our Congress due to Sputnik environment. I believe the writer to be far out of "orbit" with his inference that "happy" workers are not content on the job. It is in direct conflict with the ideology that the "happy" worker is understanding and on the job.

ELMER J. MICHAELS

Aurora, Ill.

The point I was trying to make was that a happy worker is not necessarily a productive worker. I did not mean to imply that the two may not go together [they often do]; just that a company which only tries to make its workers happy is not necessarily making them productive. Admitting all the ambiguities of the term "happy," hard work and happiness are not always and inevitably the same thing. Neither, as I tried to show, is education a completely painless process.—M.K.

Cold feet

•Your Dept. of Better Mousetraps is always highly readable. The February issue carries a note regarding the metal dinner pail for birds, which holds a pint of food and has rubber-covered perches. I'm not so

much concerned about the "firm footing" feature, but I do hate to see the wild birds perching on cold metal these winter days!

LOUISE SURGISON

Greensburg, Pa.

How about unemployment?

•I'll be looking for an issue (like December's on inflation) devoted to challenging subjects such as "recession," "pause," "tax crisis," "chain reactions," "impact of competition," and so forth. The main thought in financial circles is: How much unemployment?

FREMONT C. FOSS

Pennington, N. J.

A pleasant change

•As a teacher of economics, I find your articles interesting, both as to academic content and literary presentation. There are so few pleasurable written pieces dealing with economics that I am sure your magazine will kindle interest in that field.

EDGAR H. BORG

Long Island City, N. Y.

Condensation and condescension

•Each article is an art of condensation and covers each subject admirably.

I would like to see an article dealing with space travel.

JOSEPH TOURTOURET

San Francisco, Calif.

•Your magazine is but an exercise in condescension. With every article, I sense the contempt of your contributors and editors for the reader. I suppose giving your readers more credit might destroy your staff's sense of superiority.

LAWRENCE SPANDRELL

New York, New York

a personal note

from the editor

*how overproduction can
lead to underconsumption*

THE AMERICAN people became aware of the extent of Russian scientific progress and the seriousness of their own economic problems at approximately the same time. Certainly we could have done without either of these developments; but apparently some adversity in life is par for the course. Now, as unlikely a problem as it may seem, what we want to consider is this: Is there any connection between Russian progress and our current economic recession?

It is probably safe to eliminate the possibility that the Russian sputniks *caused* the American recession. But if we don't want to blame the satellites outright, we should be prepared to say that the complacency which pervaded our prerecession economic thinking was the same complacency which led us to underestimate the effectiveness of the Russian effort.

Complacency is an attitude, a state of mind; and such attitudes reflect the sum total of a society's values. If we think we have the best of everything, that is because we have the things we value most highly. If money for extension phones can be found more readily than money for teachers' salaries, that is because we put a higher value on convenience than on good teachers. If we believe we are enhancing our social status by driving a car with more chrome than can be seen on any other car, that is because we know our neighbors value chrome as highly as we do. By the same token, if other peoples in other lands do not value the same things we do, we are inclined to think that somehow they must be backward.

Such were the happy-go-lucky views of the American people when the "backward" Russians (who don't have many extension phones and as much vehicular-borne chrome) launched their sputniks. The rose colored glasses dropped, and suddenly life took on a more realistic hue. Almost at the same moment came the realization that the U.S.A. was in a recession. Something was evidently very wrong with the emphasis we had placed on certain values.

Nowhere else in the world do so many people watch so closely as many economic indicators and statistics as in this country. A constantly increasing Gross National Product figure is a national institution. The record amounts of rubber, tin and steel consumed make us feel as though life is really worth living. The index for industrial production is a closely followed symbol of national progress; a one-point increase means more of everything; a one-point decline means loss of face. In short, our economy is a materials-consuming economy. It has to be; for the consumption of materials provides a substantial base for most of our values.

Now we should ask ourselves this question: In which sector of the economy has there been the greatest downturn? To be sure, all sectors have been hit; but some have been hit harder than others, and the durable goods industries have been hit the hardest. In spite of the denials this comment will evoke, the durable goods people did manage to outrun even the American people's capacity to consume. In other words, an overemphasis on material values led to an overly optimistic market evaluation, and consequently to an unfavorable turn in the business cycle as goods began to pile up.

Under normal circumstances the recession should recede by December; and by late 1959 Americans should start another buying spree—prelude to another boom. The long-term growth potential of the nation is undeniable. But are these normal times? Should growth be measured by the same statistical components that were used *before* the Russians became a serious threat? We know now that the Russian system can produce sputniks. In all probability that system can produce cars and bathtubs, TV sets and nail polish. It should not matter much to us if it can. What we should be concerned with is how to make ourselves better. How can we become physically and morally stronger, so that we can successfully meet the enemy—if enemy he must be.

A slight shift in our values would help. Fewer frills on our material goods would leave that much more for nonmaterial benefits. It wouldn't matter to the Gross National Product figures if less went into chrome trim and more went into school buildings. It is probably safe to say that more utility and less nonsense will do more to induce a sense of realism than anything else. Such a reshuffle among our values would contribute significantly to a solution to our modern business cycle problems; and we would be better prepared to meet the sputnik bugaboo. There are some encouraging signs that the American people have already begun this process.—H.B.



Challenge Notes

Inflationary recession; 86.6 million dividend collectors; present decisions and future expectations; love and coffee

THE THING that puzzles economists about the current recession is the stubborn refusal of prices to decline the way our textbooks say they should.

At a time when business is finding it increasingly difficult to keep all of its labor force or capital employed, all the major price indexes continue to rise. Retail prices have been reaching new highs for the last 22 consecutive months. Wholesale prices, commodity prices and the Cost of Living Index also keep rising.

So far, the consumer (unlike industrial buyers) has kept his buying at substantially last year's level, but retail sales are down; and all surveys of consumer spending plans in the coming months point downward.

Why, then, is business not cutting prices? Some economists think the reason is that so many prices nowadays are "administered" by large corporations. Such prices, they maintain, are less sensitive to changes in demand than prices set by the "higgling and haggling" of many buyers and

sellers. Unfortunately for this theory, it is the administered prices—automobiles and some appliances—that are declining, while competitive food and commodity prices are rising.

A much more basic reason is the "built-in" inflation psychology which predominates in so many segments of the economy. Labor unions insist on asking for *irreversible* increases in money wages which businesses pass on (and sometimes add to) as higher prices with little flexibility for reductions. Until we get rid of this dangerous psychology, we shall continue to have such "paradoxes" as an inflationary recession.

"People's capitalism"?

WHILE there has been much talk in the last few years about "people's capitalism," the term is beginning to lose all meaning. Although there are 8.6 million stockholders in the U.S., this does not mean, except in the most formal sense, that there are 8.6 million "capitalists."

For one thing, these 8.6 million

stockholders are not the only source of business capital. As companies turn increasingly to debt financing and reinvestment of undistributed profits, institutional investors (insurance companies, investment companies, pension funds, savings banks, etc.) are playing an increasingly important role in industrial financing.

Even more important, only a very small fraction of the 8.6 million American stockholders exert—or even want to exert—any control over management policies. Most are merely “dividend collectors” who are perfectly content as long as their dividend check arrives on time. And only a very few own a sufficient number of shares to exert any sort of pressure over management policies.

Management is becoming increasingly responsive to group pressures. The problem for a true “people’s capitalism” is to make the voice of 8.6 million American capitalists equally potent. It will not be easy.

Quite contrary

THE contrariness of people continues to disturb economists who like to imagine that most human beings behave in an orderly, consistent manner.

Last year, when business was booming and incomes growing, people were saving less than they are now, when business is in re-

cession and incomes declining. In each case, their actions worried the economists. By saving less in prosperous years, people were contributing to inflation; by saving more during the current recession they are syphoning away money that could buoy the sagging automobile, construction and appliance industries.

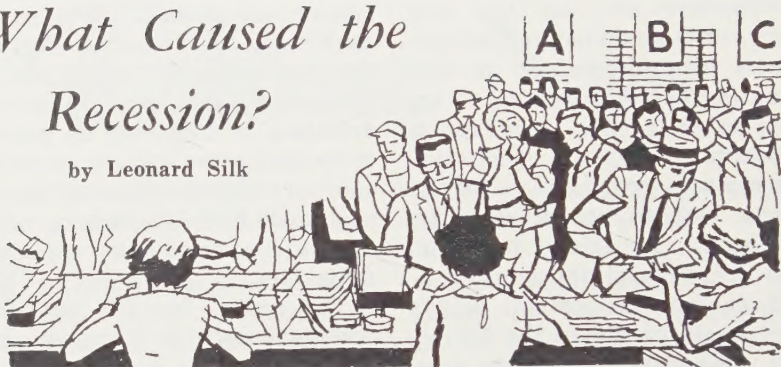
The reason for this apparent “contrariness” is plain enough. Our decision to buy or save is based not only on our current economic position as we see it, but also upon our *expectation* of future income. If we expect our incomes to grow, we will not save even though we can afford it; if we expect our income to decline, we prepare for bad times even if that means doing without.

Believable advertising

HOW believable are most ads? A recent survey by a leading advertising agency must have been a great comfort to the profession. According to the survey, 84 per cent of those questioned thought that a coffee advertisement picturing a romantic couple on the brink of marriage “if only the girl could brew a good cup of coffee” was believable. We suggest a survey on the believability of surveys on the believability of ads. Either that, or a feminine boycott: “Love me, love my coffee” (or vice versa?)—M.K.

What Caused the Recession?

by Leonard Silk



A slowdown in government and consumer spending, plus sluggish monetary reflexes, caught blithe business optimism unawares

THE INQUEST into the cause of death of the late boom has begun, and it will grow more intense in the months leading up to the November elections. Did the 1954-57 boom die a natural death, or was it assassinated by mis-conceived Federal Reserve Board or Administration policies? Years from now, when the politicians have long since moved on to other issues, the economists' efforts to explain the third postwar recession will go on—but, as is true of all important historical events, there will never be any definite proof of what really happened or what would have happened, *if*.

Nevertheless, our civic (and professional) responsibilities impose on us the necessity of trying to understand the past, to make judgments about causation, and to profit from experience, if we can.

This, then, will be one economist's premature and imperfectly objective account of the chronology and pathology of the present recession.

Every contraction in business grows out of the preceding expansion, as Wesley C. Mitchell taught all economists to say. My own inquest, therefore, starts with the events that followed the 1953-54 recession.

Although it was by no means obvious at the time, the previous recession ended in the third quarter of 1954.

The boom in 1955 went beyond virtually every economist's and businessman's expectations. By the fourth quarter of 1955, GNP had risen to an annual rate of 402.7 billion dollars—better than nine per cent above the same quarter in 1954. One remarkable thing about

this expansion was that it was accompanied by virtually no increase in prices; the consumer price index in December, 1955 was 114.7 compared with 114.8 in December, 1953. To some extent, the continuing price stability in 1955 may have been due to the ease with which production could be expanded after the 1953-54 recession. But falling farm prices certainly were a major factor, too—wholesale farm prices fell six per cent in 1955.

In any case, the Administration congratulated itself on achieving the economist's dream performance—rapid growth at stable prices. It assumed that it had accomplished this by a wise combination of monetary and fiscal policies.

On fiscal policy, the Administration thought it had been prudently flexible. The tax reduction of 1954, put through at least in part as an antirecession measure, had reduced revenues and helped to produce a fiscal 1955 deficit of 4.2 billion dollars. But in fiscal 1956, with the boom rolling, the Administration held expenditures to a modest two-billion-dollar increase, kept a tight grip on tax rates, and produced a budget surplus of 1.6 billion dollars, which was regarded as at least mildly deflationary.

Leonard Silk is economics editor of *Business Week* magazine.

On monetary policy, the Federal Reserve—with Administration support—also performed flexibly. After flooding the economy with credit to help end the 1953-54 recession, the Fed very gradually began to shift to a more restrictive monetary policy.

To satisfy their appetites for the new pastel, multitoned automobiles and for other durable goods, consumers not only cut down their rate of saving—from a range of seven to eight per cent in the preceding four years to 5.8 per cent in 1955—but they also went heavily into debt. After virtually no change in consumer debt outstanding during the first three quarters of 1954, consumers began to step up their borrowing during the last quarter of 1954 and, during 1955, added 5.5 billion dollars to installment debt. At the same time, they borrowed heavily to acquire new houses; mortgage debt on nonfarm houses rose by 12.5 billion dollars. Since this consumer spending boom occurred at a time when the consumer price index was virtually stable, those who worried about the possibly excessive rise in consumer debt were in a small minority.

The 1955 consumer spending boom was, of course, a joy to business. As industry moved toward capacity operations, corporate profits leaped from 33.5 billion

in 1954 to 42.5 billion dollars in 1955. Manufacturers' new orders, which had lagged behind sales until the last quarter of 1954, now climbed strongly ahead of rising sales; the monthly gap between new orders and sales averaged more than one billion dollars during 1955. Backlogs grew.

Invigorating challenge

Faced with the invigorating challenge of keeping up with booming demand—and armed with sharply increased earnings and abundant credit—business went on a spending spree of its own, building up inventories. In 1956, spending on new plant and equipment went up 6.4 billion dollars, reaching the 35.1 billion level. Capacity grew rapidly.

But in 1956, several things happened which tolled the bell for the boom:

- The rate of increase in consumer borrowing and spending was slowing down. In 1955, in current dollars, consumers boosted their spending by nearly eight per cent; in 1956, by only five per cent—and, in terms of constant prices, by little more than two per cent.

- The beautiful 1952-55 price lull had ended. During 1956, wholesale prices rose 4.5 per cent, and by the end of the year consumer prices were nearly three per cent higher.

- To check rising prices, the Federal Reserve Board tightened its grip on money and credit. Interest rates began to climb sharply. The impact on capital spending, however, was at first slight, because the banks and business firms were in a position to sell off government bonds and thereby acquire extra funds for investment.

These developments had a number of important, though delayed, boom-arresting consequences:

- The pressure for additional capacity was waning as the rise in consumer spending slowed down; while new plants—the result of past spending—were coming on stream fast.

- Tighter money and higher interest rates had a differential effect on the economy. Most significantly, FHA and especially VA mortgages, at pegged rates, became less attractive to investors; housing starts fell 15 per cent and sales of related consumer goods like appliances and house furnishings were affected.

- Consumers felt poorer—because they were. Per capita disposable income in constant dollars reached its peak in the second quarter of 1956, and started an uneven, but persistent decline that hasn't stopped yet. Well-stocked with cars and durables after their 1955 splurge, consumers sought to increase their rate of saving and

to reduce their rate of borrowing.

- Corporate profits stopped growing; in constant prices, they declined. Some industries were able to increase profits by putting up prices faster than wages and other costs were rising. But other industries, harder pressed competitively, felt a real squeeze on profits developing.

Regarded from the standpoint of the private economy, the boom was over by the end of 1956.

But three main factors helped disguise this fact: (1) the extraordinary climb in national security expenditures which reached an annual rate of 46.3 billion dollars in the second quarter of 1957—nearly five billion dollars more than in the same quarter of 1956; (2) the Suez crisis which stimulated net foreign investments and exports; (3) rising consumer prices, which helped create the illusion of a continuing movement upward.

Indicators and evidences

Nevertheless, a number of indicators registered declines from the end of 1956 on.

Manufacturers' new orders declined continuously—from 30 billion in November, 1956 to 27 billion dollars in June, 1957, and 25 billion dollars in December. Average overtime hours of manufacturing production workers declined steadily from 3.1 in December,

1956 to 2.0 a year later. So did average weekly hours—from 41.0 in December, 1956 to 39.4 in December, 1957. Steel production dropped, and the industrial production index throughout 1957 never regained its December, 1956 peak of 147.

Despite these evidences of a waning boom, the Federal Reserve was determined to press on with its all-out war against "inflation," roughly defined as a rising consumer price index. However, with bank reserves unchanged, and time deposits sharply increased, the nation's money supply (demand deposits and currency) in 1957 declined by 1.5 billion dollars. Banks were no longer able to sell off government securities as they had done in 1955 and 1956, because their liquidity had already been drawn down about as far as they could go. However, business firms and individuals, in an effort to maintain their spending, did sell off more governments and sought to live with smaller cash holdings. As a result, their liquidity was further impaired.

The Fed's continuing squeeze on the bank reserves helped to push interest rates to levels unseen since 1929. In August, the Federal Reserve Board boosted the discount rate to 3.5 per cent.

Here were the classic boom's-end circumstances of a desperate struggle by business and the

banks for liquidity, with the traditional postboom peak level of interest rates to help ensure that the downturn would be sharp.

Yet the event that decisively tipped the economy toward recession and unemployment was not, as in many historical breaks in prewar booms, a financial panic, but rather a budgetary decision by the Administration. In August, Defense Secretary Wilson ordered sharp cutbacks in defense spending, then running at an annual rate of about 42 billion dollars. The new order imposed a 38-billion-dollar ceiling on defense expenditures for fiscal 1958—which meant that outlays would actually have to drop well below an annual rate of 38 billion dollars for the rest of the year, since the Pentagon was already spending well above that level. Procurement orders were slashed. Air Force contractors, except those on ballistic missile projects, were ordered to reduce payroll costs five per cent by November. Progress payments were cut or held up. Many defense plants began laying off workers and slashing inventories. Coming on top of all the boom-softening factors that had gone before, that did it.

By early fall, the signs of recession were unmistakable. The industrial production index fell from 144 in September, 1957 to 130 in February, 1958. In the last

quarter of 1957, business inventories swung from a rate of three billion accumulation to 2.7-billion-dollar inventory reduction—a 5.7-billion-dollar shock to the economy. Unemployment—seasonally adjusted—began shooting up from 4.3 per cent of the labor force in August (it had been 3.9 in March) to five per cent in December, and 5.8 per cent in January. Gross national product dropped from its third quarter 1957 peak of 440 billions to 432.6 billion dollars in the year's final quarter.

Genuine recession

By the time 1957 ended, it was obvious to nearly everyone (except, judging from the published record, the President's Council of Economic Advisers) that the economy was in a genuine recession. The McGraw-Hill capital spending survey in November reported that business was planning to reduce its capital spending in 1958 by seven per cent. (A later Commerce Department survey in March, 1958 found that business had reduced capital spending plans still further—to 13 per cent below 1957.)

Since this article is a post-mortem and not a forecast, I shall go no further. I have already disclosed, in the above account of events from 1954 through 1957, my own principal conclusions

about the causes of this recession. Perhaps I should very briefly sum them up:

- The extraordinary consumer spending boom of 1955, fed by cheap and abundant credit, boosted corporate earnings, pressed against the capacity limits of industry, and greatly raised business expectations.

- These events triggered rapid business inventory accumulation and greatly increased spending for new plant and equipment.

- During 1956 and 1957, consumer demand grew at a slower pace than business had anticipated, and the capital spending boom bred excess capacity. At the same time, the slower rate of rise in demand meant that further inventory building was unnecessary—indeed, that inventories were too heavy.

- The impending downtrend was delayed in early 1957 by rising military outlays and by Suez. But increasingly tight monetary policy coupled with the drastic cut in defense orders and defense spending in the late summer and early fall helped to aggravate the recessive factors that had developed during the preceding two years and to produce the sharp downturn in the fourth quarter of 1957.

The cynic says that history teaches us only that history teaches us nothing. At minimum, though, I believe that events of the past few years have raised some basic questions for which we must find answers if we are to preserve the stability, health and life of the next economic expansion more successfully than we did the last one.

Does the economy need more freedom or more effective direction and regulation? If the latter, have we relied too heavily on general monetary controls, too little on selective regulation not only of credit but perhaps also of wages and prices in key industries, and too little on fiscal policy? Do we need a new top-level agency for determining and coordinating national economic policy? What weight should be given to the aim of preventing inflation—of what amount—as against the aim of preventing unemployment—of what amount?

Before the “great debate” on these economic issues had got very far last year, the problems of prosperity gave way to those of recession. Let’s hope that worries over how to handle a boom will be back with us soon—and that next time we’ll have better answers to them. ■

Record in Spending

CURRENT annual expenditures of state and local governments total a record 37 billion dollars—about 8.5 per cent of total national output.

CALIFORNIA: PIONEER'S PARADISE?



by Bruce Bliven

America's future is sketched out in a state where innovation is a way of life

CALIFORNIA is a happy hunting ground for sociologists, amateur or professional. National problems appear in that state earlier and in more luxuriant form than in other parts of the country; and it has a few special problems of its own.

The most urgent and dramatic of California's difficulties are related to the enormous increase in population. The number of inhabitants has doubled since 1940 and is continuing to grow by about 1,300 people per day. Five-eighths are new settlers; the remainder come from the excess of births over deaths. The state needs a new schoolhouse of 15 or 16 rooms every day of the year. It needs several hundred new dwellings daily and heavy annual additions to every type of public service—hospitals, jails, sewers.

The migration has come in different waves. In the first three

decades of the century, it was predominantly elderly, semiretired people from the Middle West who flocked to Southern California because of the mild climate and ease of living. Most of these people had a little capital and the political conservatism that goes with the small rentier, although some succumbed to the lure of the Townsend Plan during the Great Depression. In the 1930s came the Okies and Arkies, driven from their own states by drought and depression and with almost no financial resources. They were for a time seriously exploited by the big-scale farmers of the state, and they overran the facilities for charity in many communities.

With America's entrance into World War II, there was a great migration of workers to the airplane factories and shipyards. They came in large part from the Deep South, and included a heavy

proportion of Negroes. Then, after the war, there started an influx of a large number of youthful war veterans and their families. Many had seen California when they were in the service and vowed to return when they were again civilians.

For 50 years, the state has attracted migration from across the border—Mexicans, many of them “wetbacks” who have arrived illegally. Most are agricultural workers, doing heavy labor for long hours and low wages, but eager to come nevertheless because conditions are still better than in their own country. Today, migrants to California are still largely composed of people who are under 35 or over 60.

None of these waves of migration, except the first, has had any real effect upon the culture of the state. California is still an extension of the Middle West. It is a long way from Europe, and has never really felt very near to the Orient, to Mexico or the west coast of South America. The old Spanish influence is almost gone, marked today chiefly by a few barbarously mispronounced place names, a derivative adobe-and-tile architecture, and a slight slowing of the Middle Western pace of

living, natural in a subtropical, arid climate.

The typical white Californian of today has a family income one-fifth higher than the national average. Pioneers always tend to be enterprising, and this may account in some degree for the many innovations in living that have started in California and spread across the country. These include ranch-house architecture, with its emphasis on indoor-outdoor living; the wearing of casual sports clothes on practically every occasion; and a greater devotion to the automobile than occurs anywhere else in the world.

All Americans are rootless and restless by European standards; and this is truer in California than anywhere else. Post-office and public-utility records indicate that in Southern California, for example, one-third of the householders change their addresses every year, against one-fifth in the nation as a whole. In the big cities, people come and go more or less unnoticed; but in the smaller communities there are elaborate and formal efforts to make the newcomers feel a part of the community. The Welcome Wagon, which is a commercial enterprise, flowers in these places, and there are also Newcomers' Clubs which help people to become acquainted.

This huge and steady increase

Bruce Bliven, well-known free-lance writer and long-time student of social phenomena, is a resident of the state of California.

in population serves to mask some conflicts and problems that are more apparent in older and slower-growing communities. You don't have to be very smart to keep your head above water as a businessman in a town that doubles in population every 10 or 15 years. Anybody who buys a piece of land in a good area and hangs onto it will eventually see it go up 100 per cent in value—or 1,000, or even more. State legislators, who are never quite sure who their constituents are, can be unusually responsive to organized pressures such as lobbies, or to advertising and publicity campaigns.

Political repercussions

The fact that so many of the people in any community are recent arrivals has especially important political repercussions. A politician who runs for office every two or four years finds he must introduce himself afresh to a large body of new constituents. Luckily, it is not quite as large as the figures just cited would indicate, since some people move much more often than every three years, and a lot of others don't move at all.

The political situation is complicated even more by a special California institution called cross-filing. Under this system, any politician may run in the primary

of the "other" party as well as his own. If he wins both nominations, the election is already over. Until recently, the candidate's ballot did not even have to specify his party. In a state full of strangers, even a staunch party member often did not know who were his own candidates. This gave a huge advantage to an incumbent running to succeed himself. Since being in office tended to get his name into the papers, he would often get a big vote because the voters had heard so little—or nothing at all—about his opponents. Moreover, all politicians, and novices especially, needed to be advertised like movie stars or breakfast food. Several publicity organizations have grown up in California specializing in selling candidates to the public with all the arts of Madison Avenue.

Everyone who comes to California seems to succumb to the regional special manner of living. The areas showing the greatest growth are the suburban tracts, where young people just starting in life are buying ranch-type houses on the installment plan. With rare exceptions, the joys of such suburban bliss are forbidden to the members of minority races, regardless of their financial status. They are jammed into the decaying houses that the whites have abandoned in the urban areas.

California now has some heavy, and a great deal of light, industry. While the population was going up 300 per cent, manufacturing increased eight times. The state now has a large population that is technically in the working class, but these people do not think of themselves in this way; and, except for the minority groups, they lead lives indistinguishable by any external standard from those of the middle class. They drive the same Fords, Chevrolets and Plymouths, when they are not driving skillfully reconditioned secondhand Cadillacs or Lincolns. They live in tract houses, with the usual patio and barbecue. Above all, insofar as they are influenced by television, they are indoctrinated by the same programs, and in the same way and degree.

Swing to the right

In California, as everywhere else, the move to the suburbs tends to be accompanied by some swing to the right, politically. This is so strong in many areas that a standard joke when one Democrat meets another at a barbecue supper is for one of them to open the conversation with, "Dr. Livingstone, I presume?" There are several reasons for this development. The new suburbanite is now a land owner, and however slight his equity in his prop-

erty, he begins to think in terms of taxes and the responsibilities of a solid citizen, all this making him more sympathetic to the GOP. If he is moving upward from the working class, Republicanism seems to him to imply greater social acceptability—and often it does. If he is a junior executive in a big business, he takes on the conservative opinions of men much higher in the firm. As a tract-dweller, he makes friends of his neighbors whatever their political complexion, while in the city he associates with people chosen for their compatibility—political and otherwise.

Under these circumstances, the cross-filing system may be more of a blessing to the Democrats than they realize. By pushing party regularity into the background and emphasizing personality, the system may help the individual Democrat to break the party boundaries to his advantage. As might be expected, middle-class radicalism is a dwindling phenomenon, confined chiefly to individuals whose stubborn non-conformism probably goes heaven-knows-how-far-back into their childhood anxieties and tensions.

Sociologists all over America look askance at some aspects of suburban living, and this is especially true in California, where innovations are pushed further than elsewhere. The students of

our mores are concerned about communities where almost everyone is young. They worry about the heavy pressure to participate in local activities, which in turn may come partly from the newness of the group and the unconscious desire to modify it into definite patterns. Some of these suburban tracts are overorganized to a fantastic degree, with perhaps several meetings every night of the week competing for the householder's attention.

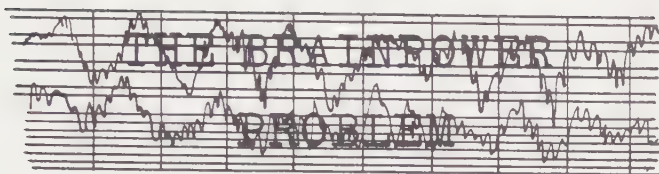
Since domestic help is only available to the very rich, the wife carries a staggering burden, doing all or nearly all her own housework, running up a heavy daily mileage as family chauffeur, and immersing herself in the Parent-Teacher Association, the League of Women Voters, the local branch of the American Association of University Women or the Great Books group. The husband, of course, shares in household duties to a degree that would leave European males speechless.

But while the professors are wringing their hands, most of the young people living in these tracts seem not at all disturbed about their present or future. Always excluding an inevitable neurotic minority, they profess that they have never been happier. They are delighted with their community activities, regard most of their neighbors as perfectly won-

derful people, and look forward to the future with the usual American happy optimism.

There is another group that is worrying about California and its future. The city and regional planners fear that the tide of immigration will continue until the state is so overpopulated that the amenities of life are destroyed. They point out that the best flat land near the big cities has already been built upon, and that the contractors are now going up steep hillsides which show a distressing tendency to slide down in a mass of mud when the heavy winter rains begin. They argue that whenever a new freeway is opened, it generates additional traffic to such an extent that almost at once it is overcrowded. They see the urgent need for comprehensive, over-all regional planning around San Francisco and Los Angeles, for example, but they recognize that this is made almost impossible because of the overlapping and jealous authorities of towns, counties, special "districts" and the state. They are aghast at the inadequate provision being made for water supply, for recreational areas and many other things.

Thus far, however, the planners are voices crying in the wilderness—a wilderness that still seems to most of its inhabitants to be paradise enow. ■



THE BRAINPOWER PROBLEM

by Dale L. Hiestand

We need better-trained minds, but it would be a mistake to turn our educational system into a factory mass-producing engineers and scientists

THE CURRENT debate about missiles, satellites, the shortage of scientists and engineers, and science in general has produced a variety of explanations and suggested cures for our "brainpower problem." Yet many widely accepted statements do not survive examination, and several enthusiastically supported proposals may well do more harm than good.

It is clear that a high rate of scientific and technological progress is of the greatest national importance. Yet the nation may be excessively preoccupied with engineers and scientists. There is a tendency to view scientists and engineers in isolation, as if they were the sole agents responsible for technological change. But engineers and scientists are helped or limited by the capacities of the rest of the labor force. Indeed, many scientific advances would be meaningless without managerial skills to set up and operate the large organizations needed to de-

velop them. Managerial groups, in turn, depend heavily on the skills of clerical employees.

We must, therefore, increase the over-all quality of the labor force, for this also contributes to the rate of scientific and technological advance. A growing national investment in research and development is itself made possible by the growth in national income resulting from increased productivity throughout the labor force. Many analysts have held that the well-publicized shortages in the engineering field are not so much a shortage of engineers as of engineering aides or technicians who could relieve them of many routine tasks.

Whether the shortage of engineers is nearly as acute as it has sometimes been pictured has been questioned on other grounds. Most engineers are employed by business enterprises, who "make" the labor market for engineering graduates. If something is in

short supply, one expects the price to increase. One survey shows that starting salaries for engineering graduates have increased by 85 per cent in the last 10 years. But starting salaries for college graduates entering sales and other business fields have also gone up at least 80 per cent during the same period; and the "price" for an accountant has gone up more than 90 per cent.

"Brainpower" shortages are not reducible to numbers. Men who are capable of making unique contributions to society are always in short supply. Indeed, a few more imaginative specialists in international politics or Asian and Mid-east cultures might have had the effect of making Soviet technical advances less crucial to our defense and international positions.

Unhappy results?

One popular proposal is to set up special science or engineering scholarship programs. A similar approach is suggested by the proposal in New York State that engineering programs be organized in conjunction with the teachers' colleges. Special scholarships and more convenient facilities will undoubtedly reduce the total costs of education and induce more young people to undertake study in engineering and the sciences.

But such a program may lead to some unhappy results. Engineer-

ing schools already suffer from heavy drop-outs. The proportion of college freshmen entering engineering rose in 1951 and 1952, while the proportion of engineering seniors who failed to gain engineering degrees jumped in 1955 and 1956.

A greatly increased supply of graduates may also serve to depress engineering salaries, inducing many new graduates and experienced engineers to enter other lines of work. Scarce university resources for training in engineering and science may be overburdened. Engineering may gain people who are not particularly interested in their work. Eventually, engineering programs might become like teachers' colleges, where many students have no intention of teaching.

Another theory is that a barrier to the development of scientific and engineering potential lies in high school programs which allow students to take "soft" electives. Contrary to well-publicized reports, however, more high school students now take physics, chemistry, algebra and geometry than formerly. Over the years, a declining proportion of all high school students has enrolled in these courses. But high schools now serve a far greater proportion of the teen-age population. Be-

Dale L. Hiestand is a member of the staff, National Manpower Council.

tween 1928 and 1957, when the number of youngsters of high school age increased by less than one per cent, enrollments in algebra increased by 980,000, or 95 per cent; in geometry by 370,000, or 65 per cent; in physics by 100,000, or 55 per cent; and in chemistry by 320,000, or 155 per cent.

Fundamental concern

A more fundamental concern has to do with the *quality* of instruction in the sciences and mathematics. Many who trained to teach these subjects have found industrial employment more rewarding. As a result, some who are ill-prepared have been assigned to teach science and mathematics.

The argument frequently is made that the development of science is hindered by certain aspects of American culture which are hostile to intellectual achievement. It is said that Americans typically place high value on material success and are unconcerned with things of the mind, and that they are content to take the fruits of scientific progress but fear those individuals who are responsible for that progress.

It is true that success in America is usually judged by the money one can earn. Brains have always been well-rewarded if they are used in "practical" pursuits, and

less well-rewarded if tangible results are not forthcoming. Still, the widespread concern about anti-intellectualism is in itself an indication of the extent to which intellectual achievement is appreciated.

The increasing importance of science is reflected in the growth of research and development expenditures, which now approach 10 billion dollars per year. In part, this rapid growth can be attributed to industrial research for new products and methods. But nearly 60 per cent of all research and development expenditures is now made by government, either in its own laboratories or through contracts or grants with industries and universities. Though the vast majority of these expenditures are for defense purposes, expenditures for basic research have increased far beyond the levels hoped for just a few years ago. The share of the federal research and development budget going into basic research has risen from six to nine per cent since 1952. Private companies are also more and more concerned with basic research.

It is true that Einstein once said that the American scene is not conducive to the monotony of a quiet life proper for the development of the mind. However, modern research is, to an increasing extent, carried on in large organi-

zations. Von Neumann was deeply engaged in scholarly pursuits and Washington affairs at the same time. The presence here of many leading scientists who were born and educated in Europe implies that the American scene may be quite friendly to science.

One may ask how the Soviet Union fares with regard to these factors. On the basis of their official dogmas, a greater degree of materialism, equalitarianism, conformity and anti-intellectualism must exist there than in the United States. Yet their science is of quite a high order.

Our manpower problems have less to do with quantity than with the over-all quality of those manpower resources. This is in large part determined by the quality of the education and training offered at all levels and in all areas.

A significant increase in the national investment in education is necessary in order to attract more highly qualified people into school and college teaching. There

is every reason to encourage more high school students to study mathematics and the sciences more intensively, not primarily because this will better prepare them for training as scientists and engineers, but because these subjects are useful and even necessary in an increasing range of occupations.

A fuller understanding of the essential part played by science in our economy and culture, beginning in the elementary grades, will do much to erode the remaining prejudices which inhibit the growth of science. The financial difficulties of young people should not be used to induce them to enter and stay for a lifetime in occupations they might not otherwise choose. As public and private scholarship funds expand, they should be available to students for study in fields of their own choice, based on individual needs and desires and the needs of the economy and society, as well. ■

Lull in the Storm

THIS WILL help to exorcise myths about the effectiveness of *brainstorming*—that technique of thinking aloud in groups used by advertising agencies and other businesses. A recent experiment conducted at Yale University indicated that brainstorming, rather than aiding creative thought, actually hinders it. In the test, 96 college students were given three different problems to solve. Some worked together in groups of four, while others worked alone. When the results were examined, the isolated thinkers had the triumph. Not only did they surpass their communal competitors in quantity of ideas, but in quality and originality as well. According to the testers, there were no great differences in intelligence among those tested.

Striking a Collective Bargain



Union-employer bargaining involves a complex strategy covering a wide area from economic principles to the unpredictable human factor

by Louis Yagoda

WHAT ARE the boundaries of the possible in collective bargaining? Why, in a given situation, is the settlement a 10-cent per hour wage increase, while in others it is 22 cents or four cents? Could these amounts have been higher or lower, and what made the difference?

Labor relations law establishes almost no limits on how much the union may ask and how little the employer may give. Conceivably, a union might place its demands on such a fantastically unrealistic level and take so unyielding a position in its support that it would constitute illegal "refusal to bargain." Similarly, an employer's offer could be so preposterous that it might be interpreted as a violation of the law if the union is a representative of the

employees. But there is very wide room for opposite positions within these extremes.

Since the restraints of law are negligible, what are the factors which affect the chances of the disputants reaching a settlement? Before we can answer that, we must ask ourselves what the parties are trying to buy from each other at the bargaining table.

The employer wants to be left alone to do the things businessmen are supposed to do. He wants to enjoy the greatest possible return from his business and, therefore, would like to keep labor costs as low as is consistent with successful bidding for competent labor in the market and promotion of efficient production. But along comes the union and tells him that in certain cases he will

not be permitted to make his own judgments for the maximization of returns. What makes him listen? Primarily, the union's threat that unless he consents to higher labor costs, his ability to produce successfully will be impeded by a strike. To prevent this and to receive an assurance of uninterrupted activity for the period of the contract, the employer is willing to share with his employees, to a greater extent than he had contemplated, the proceeds of his business.

Presumably, there is a point at which peaceful production can be too dearly bought. But this point cannot be easily translated into dollar values. In making his calculations, the employer tries to supply figures for the overriding question—How far can I go?—by answering many subsidiary questions: How much of my profit margin can be eaten into? How much room is there for price increases to absorb rising labor costs? What economies might be introduced to mitigate the additional expenditures?

Great limitations

These calculations may be very detailed—especially for good-sized businesses. There is a growing table of costs for nonwage benefits. The hourly cost of an additional holiday, for example, can be added to the package cost by

taking a total day's payroll and dividing it by the total yearly man-hours. Some nonwage benefits are much more difficult to add into costs. How much will be expended in payments for employees who will enjoy pay for jury duty leave; or how much will be lost by a provision for funeral leave pay? Nevertheless, the attempt is made to predict such costs.

However, there are great limitations to this kind of planning. Again and again, employers give their consent to settlements that violate the cost accounting of solvency. Somehow, they make a "go" of it, and when they appear at the bargaining table next year, the union representative is able to say: "See, you told us you would go out of business if you gave us this raise last year. This proves we can't believe you when you say that you can't afford another raise."

The seemingly inexhaustible "extras" of additional technological short cuts, managerial devices, revamping of marketing methods, or financial planning may turn seeming defeat into survival. Employers *do* guess wrong and find themselves out of business. So there must be a limit somewhere.

Louis Yagoda writes from extensive experience as New York City District Director for the New York State Board of Mediation.

Of course, the employer's ability to raise prices has a great effect on his ability to survive and prosper in spite of "excessive" costs. There is a great difference in wage bargaining between a competitive industry and an industry in which prices can be administered. In the latter case, the increase in labor costs may actually be utilized as a device to raise the prices.

One more important "unmeasurable" must be considered in reckoning the managerial reaction—the human factor. What values shall we assign to an employer's feeling that "nobody is going to tell me how to run my business"? At what point do his "principles" (or dream of a mink coat for his wife, or a house in the country) say "Stop; enough"? When the employer is a corporation, factors of personality and emotion are not eliminated; they are merely distributed among more individuals.

Not easily calculated

Turning to the other side of the collective bargaining table, we know that the union seeks the highest possible wages and the best working conditions for its members. But this, too, is not easily calculated. Unions have been known to propose terms which are considerably lower than the "highest possible" manage-

ment could afford to give and still retain profitable operations. On the other hand, unions often cling to demands which are not properly realizable in terms of business ability to pay. The fact is that although unions will often justify contract benefits in terms of management profits, the ability of the employer to pay exerts only a secondary influence on the union's bargaining demands. It is true that when the battle lines have been drawn, the union may often be forced to modify its demands, not so much because it realizes that the employer cannot pay, but because the *employer's* realization that he cannot pay has led him to put up so stiff a resistance that the union has to choose between a long strike or a downward revision of its position.

But, if the employer's ability to pay is not a determining factor from the union point of view, what is? A union's demands are primarily shaped in a leadership atmosphere. The internal political aspects of trade union institutionalism are expressed in the motivations of the elected union official. He would like to keep his job; and partly because he identifies the health of the institution with his own health, he wants the union to become more powerful, richer and better. Partly because the way to do this is to improve the lot of the members, he wants

the workers to get better and better working conditions. Nevertheless, there may be serious and significant contradictions among factors relating to the welfare of members, the welfare of officials, and the welfare of the union.

In general, the rank-and file membership gives its consent to the boundaries of the union position rather than to the specifics. The membership influences the decision by receiving from the community at large the rough, raw material of what is happening to their neighbors, and what has come to them by way of settlements which have been dramatic news in the newspapers. Usually, the leadership formulates two kinds of demands—the asking price and the rough limits of a settlement price—and brings these to the membership for approval. The task of the leadership is to estimate what will be acceptable. For, it is the rank and file who determine the political fate of the leader who does not satisfy the rough boundaries of their asking price. And it is they who are the strikers, potential and actual.

Sometimes the most important influence on the outcome of a collective bargaining session is beyond the control of the local organization. If, for example, the negotiating unit is a branch of a national enterprise for which the national union office has estab-

lished a company-wide policy, the representatives of the international will exercise a controlling influence. In some industries there has been so much hardening of national or regional wage and other positions that the bargaining is little more than an ultimatum in which the union demands that the company conform to "scale."

The formal criteria

What are the criteria used by the union in shaping its demands?

- *Comparability* has become the most dominant note in collective bargaining. When the union leaders seek to determine the size of the increment of improvement which they will ask for, a comparison is made with other people doing the same kind of work (if there are others who are being paid more), or with the increases being given generally to labor (the so-called "patterns"), or the relationship with lower-paid workers ("retaining the differential.")

- *The expectation of upward progress.* This derives from the expectation of the union member that the union will produce new benefits at every contract expiration. Although there are notable exceptions, this convention has generally become so well established that certain benefits have an almost inevitable timetable of progressive betterment.

•*Package bargaining and welfare provisions.* The rise of provisions for insurance benefits of one kind or another in the collective labor agreement has provided additional ingredients to go into the final deal. Welfare fund provisions are regarded as "union demands" rather than "worker demands" because ordinarily the individual member is inclined more to think of fattening his pay envelope rather than of the need for protection against losses arising out of illness and hospitalization. The union seeks to strengthen the funds from which benefits must be paid, and therefore the leadership will be inclined to use its influence in favor of allocating some of the total expenditure to welfare contributions.

Aside from these general influences, there are characteristic patterns of bargaining which have grown up in particular industries. In the building trades, for example, the nature of the market seems to permit the imposition of large increments of increases. In the mass production industries, such as steel and automobiles, the bargaining is influenced by the presence of great multiplant employers. The international union determines the policy, and this becomes a matter of national philosophy.

We have dealt mainly with goals and how they are measured by the

bargainers. But the ultimate measurement of how much insistence there shall be, and how much retreat there shall be, depends on the extent to which the parties feel themselves threatened by a potential or actual strike. From this point of view, the final determinant of the collective bargaining transaction includes such factors as the financial resources of both sides, the state of the industry, the sympathies or orientation of the community and its police department, the unemployment insurance law, and what the weather is like for picketing.

It may be theoretically possible to achieve useful measurements of the factors which have been sketched here—the ends and means in collective bargaining. The task would need formidable instruments. They will have to measure the variables of a man's concept of his own self-interests, of the cultural influences which condition how far up employers and workers want to move, what they are willing to gamble, their resources in recouping after a poor gamble, the interaction of decision-making masses and their leaders, the possibilities of skills in negotiating tactics and so forth. These are among the many factors which at present make the collective bargaining process difficult to enclose within the plotted curves available to the economist. ■

The increase in the crime rate outstrips our population growth and poses an insidious threat to our vital institutions

**City Accountant Seized in Theft
Of Real Estate Bureau Funds
BIG BUSINESS
Two at Loan Co.
Holdup Get \$300
POLICE TO COMBAT
BIG ROBBERY RISE**

by Donald J. Newman

WE AMERICANS show an amazing interest in all things criminal; we probably write more, read more, and view more stories about crime than about any other single subject except, perhaps, love. We not only take an academic interest in crime; many of us, even respectable folk, manage to engage in it "harmlessly." Yet, we do not think of ourselves as criminals when we cheat a little on our tax forms, or when we place a bet with a bookie.

A cynic once defined criminals as *other* people who break other laws. But Americans violate the law so frequently that we have the dubious distinction of being the most criminal of modern, civilized societies. What does this cost us?

Much of the price we pay for crime is essentially nonfinancial. Crimes of violence like murder,

assault, the sex offenses and kidnapping wreak inestimable damage on human lives. Who can calculate the cost of treason? We pay a price for *all* crime in anxiety, fear and distrust of our fellow men.

It is impossible to make an accurate estimate of the financial cost of crime. Even the *number* of crimes committed annually is not known with any accuracy, and clear information about criminal activities more complex than burglary is almost impossible to obtain. One major difficulty centers on the issue of *direct* versus *indirect* costs. Direct costs refer to the amount of money or property lost by victims through theft, fraud, arson, gambling and other such activities.

The indirect costs of crime are more numerous and perhaps more

complex to calculate. By indirect costs are meant all those monies spent for law enforcement, court procedures, prisons and their upkeep, probation and parole programs, prevention programs, hearings and investigations, research, psychiatrists and psychologists, insurance policies, savings banks, and even for locks on our doors. If even modest guesses of all these variables were collected, the over-all cost of crime would undoubtedly be considerably higher than the present top estimate for officially defined crime of 20 billion dollars yearly.

Criminologists commonly distinguish four major types of property violators. These are known as conventional, professional, organized and white-collar criminals. The first of these, the *conventional* offender, engages in relatively crude variations of direct stealing, larceny, burglary and armed robbery. The FBI "requests" police chiefs and sheriffs to report crimes known to them; some police cooperate, some do not. The FBI's annual *Uniform Crime Reports* give some general statistics on the extent of crime for the cooperating districts, which encompass only about 80 million people. We know that about two-and-a-quar-

ter million felonies are reported each year, and unrecovered property losses reach 200 million dollars. The average "take" *per larceny* is 80 dollars; *per burglary*, 125 dollars; and *per robbery* about 250 dollars; but over half these losses are recovered.

What about uncounted thefts and losses in districts not reporting to the FBI? If we conservatively add another 100 million, we get a figure of 300 million dollars per year as direct cost for conventional crime.

Indirect costs are somewhat higher. There are approximately 150,000 uniformed police in the United States, 80,000 sheriffs, marshals, constables, *plus* G-Men, T-Men, private industrial police, private detective agencies, inspectors and bank examiners. If police and legal expenses, including the salaries of public prosecutors and criminal court judges, are included, the total cost will exceed 700 million dollars a year.

Operating expenses for our penal institutions run to about 150 million dollars annually, leaving out the cost of depreciation of the prisons themselves. Recently a medium-security institution was built at a "bargain" cost of 17,000 dollars per cell. Each inmate receives, in effect, housing and equipment equivalent in value to a new five- or six-room house. It costs 1,800 dollars a year to keep

Donald J. Newman, Professor of Sociology at St. Lawrence University, is a specialist in the fields of criminology and juvenile delinquency.

an adult male in prison in New York, and more than twice that figure in some specialized institutions where extensive psychiatric and other rehabilitative care is given. Not including the loss of productive labor, insurance expenses and research, conventional crime alone costs us a *minimum* of a one-and-a-quarter billion dollars a year.

What is professional crime?

The cost of *professional* crime is not accurately known because it is underreported and because most professionals do not show up in prison or police statistics. Professional crimes include confidence games, frauds, swindles, highly skilled jewelry thefts and counterfeiting. Top-notch "con" men have been known to net annual incomes of a quarter-million dollars. A cautious estimate would put the cost of professional crime at about a half-billion dollars a year.

When we turn to *organized* crime, costs mount considerably. The organized criminal is the gangster, the gambler, the racketeer and vice-seller, so familiar to the viewers of the Kefauver crime hearings. What Kefauver and others have demonstrated is that vice and racketeering occur in all parts of the country; that racketeers have infiltrated at least 70 of our major types of

business, ranging alphabetically from advertising to transportation; and that gangsters are so well-entrenched in our social structure that this type of crime can withstand any investigation and any reform program yet undertaken.

Organized crime can be divided into two major categories: the illegal dealing in narcotics, gambling and prostitution, and criminal participation in legitimate business, labor and political organizations for the purpose of "protection," extortion, kickbacks or "legitimate" profit. The scope of these activities is suggested by the following facts:

- The "take" from the numbers racket alone is estimated at 500 million dollars a year.
- There are about 90,000 narcotic addicts in the greater New York City area alone; the average addict needs from 15 to 35 dollars a day for his vice.
- Gangster-controlled wire services involve the betting of between 17 and 35 billion dollars a year. The net profit to the criminal syndicates has been estimated to be from three to seven billion dollars.

The real cost of organized crime, of course, cannot be measured by the losses of victims alone. There is no doubt that gangsters exert strong influence in many municipal governments and state

governments, and have extensive lobbying interests in various facets of our federal government. The labor union movement is in danger of being badly crippled by racketeers.

What is the cost of this? It is impossible to say, except to point out that the financial rewards to criminals from organized crime alone exceed annually the combined net profits of General Motors, General Electric and United States Steel!

White-collar crime

The extent of white-collar crime in our society is believed to exceed, in frequency and in the number of dollars involved, all other forms of crime combined. White-collar crimes are law violations by businessmen, labor leaders and members of the professions in the course of their occupations. Such offenses include tax law violations, embezzlement, fraudulent financial manipulation, violations in restraint of trade, the formation of illegal monopolies and trusts, food and drug law violations, and bribery and graft. The violators are by no means the stereotyped criminals of popular conception. Most are in upper social strata, hence the title "white collar," and many violators are not persons at all, but entire corporations, cooperatives or unions.

The late Edwin Sutherland

found that 60 per cent of 70 of our largest corporations had, on the average, four criminal convictions. Numerous other researchers have corroborated his claim that the financial cost of this sort of crime is "several times" the cost of other types of violations. The Fidelity and Deposit Company places losses by embezzlement, financially the least important form of white-collar crime, at 500 million dollars a year.

From the jungle of white-collar violations, it is virtually impossible to extract any sort of reliable estimate of the financial magnitude of the problem. There is a good deal of agreement, however, that the effects of this form of crime, in terms of the general disorganization of our society, and the breakdown of our basic economic and political ideologies, are even greater than that engendered by organized crime.

It should be apparent that crime does pay, perhaps not in peace of mind or in rewards after death, but financially at any rate. While some *styles* of crime, like safe-cracking and mail robberies, become outdated, crime on all levels is on the increase. We shall have more burglaries and larcenies this year, in proportion to our population than last year and all years preceding. While gangsters have abandoned the armored cars and

bulletproof vests of prohibition days, the extent of their operations makes trivial those of Scarface Al Capone. In the expanding area of interlocking financial relations of business, government and the military, estimates of increases in white-collar offenses reduce the Teapot Dome to tea-service size.

As long as dishonesty is so richly rewarded, no simple panacea will reduce the crime rates. The solution lies in the realignment of certain of our major social values, particularly those values directed to the distribution of our societal *rewards*, such as opportunities for wealth and security, education, prestige and self-respect. We have been trying to control crime by manipulating punishments but have ignored the more basic problems of modifying these rewards. We have tried everything from capital punishment to censoring comic books. We have blamed parents, schools, churches and even the climate for our criminal conditions. All have proved superficial.

The change of some of our basic values may cost us more than we are willing to pay. For example, the long-range effect of the recent Supreme Court decision on school integration will, if the integration is successful, open new

economic and social status channels for the American Negro. This should act to reduce the deplorably high Negro crime rate which is caused, of course, not by racial factors, but by discriminatory denial of many of the major rewards of our society to these millions of Americans. However, many citizens North and South resent this integration and some, in fact, resist it with violence.

Of course, the reduction of discrimination against minority groups is only a minor step in attacking our crime problem. Giving up our prejudices and cynicisms, reducing favoritism and nepotism, getting on a "what you know" rather than "who you know" basis of opportunity is not only a difficult task to accomplish, it is a difficult goal to accept.

What are the alternatives? More prisons? More investigations? Tranquilizers? Nothing adequate has yet been proposed. In the meantime, crime continues to increase faster than our population grows. We can pay the price of this crime for a while, but eventually it can, by rewarding dishonesty, by engendering corruption, destroy our basic economic, political and social structures. This is the real cost of crime. ■

Not So Lethal

CONTRARY to popular belief, today's city dweller has virtually the same life expectancy as those living in rural areas.

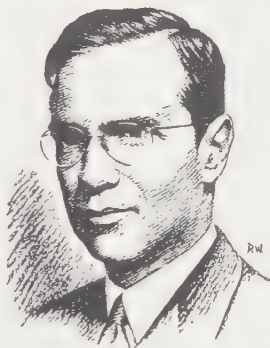
William McChesney Martin— The Banker's Banker

THE United States has been experiencing the distressing effects of living in both inflation and deflation, an unusual doubling of disadvantages. This demonstration of pluralism might delight a William James; certainly it requires the highly philosophical attitude of William McChesney Martin, Jr., 51, Federal Reserve Board Chairman.

Bearing a well-pondered responsibility for the economic state of things, Martin is vulnerable, on the one side, to the anger of bankrupt businessmen and unemployed workers, and, on the other flank, to the fulminations of the consumer in the face of high prices. Indeed, the problem is deeper and more excruciating than just that.

Martin has frequently articulated his opinion on what he re-

With each issue, CHALLENGE profiles a person whose thinking affects the pace of the United States economy.



gards as the greatest danger in inflation, that it develops an imbalance inexorably demanding redressment in the form of a counterswing into recession. How can you coherently correct a contradictory situation? Antirecession action will inten-

sify inflation, and countering inflation means adding to the recession forces.

But Martin does have the comforts of a pragmatic philosophy. Although he is a trained economist, Yale '28, he has said: "Economics is not an exact science, and never can be. It is part sociology, part psychology. It has to do with the reactions of a multitude of individuals."

He has furthermore said that the power of the government and the FRB to prevent declines is limited. This is not a defeatist attitude; Martin is not reluctant to make full use of all the possible powers, but he knows enough

about classical economics and human events not to conceive of the economy as a precision machine.

This modesty is characteristic of the man and his career. He has won his triumphs by being on the losing side at key moments, a nice demonstration of the sometimes short distance between the least and the first; and one of those triumphs has been to live down the tag of "Boy Wonder." The son of a St. Louis Federal Reserve Bank President, he began his circular career line as a clerk in the paternal bank and then became a successful floor trader on the New York Stock Exchange.

Leader of Young Guard

He was a leader of the Young Guard when the Exchange retreated into a more regulated life under SEC legality. Martin emerged nimbly from what had become a rout at the disclosure of derelictions by Old Guard leader Richard Whitney; he became president of the Exchange at the age of 31. It was a happy wedding of principle and ambition, for Martin believed in proper Exchange regulations as firmly as in the law of supply and demand.

Drafted in 1941, Martin was briefly a publicized Army private and, in three years, a colonel. It was a short step from military staff to government. Named president of the Export-Import Bank,

he was banker enough to prevent the use of its funds to make political loans, and diplomatic enough to win friends in the struggle. He then became Assistant Treasury Secretary for international finance in 1949, in time to help lose the Treasury's battle with the FRB.

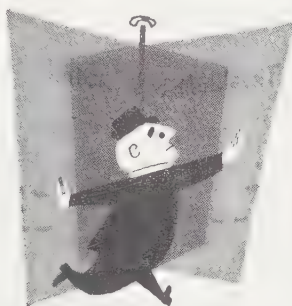
The issue was whether the FRB should continue buying enough federal securities to support the bond market at low interest rates. Martin believed that such a policy was harmful because of the inflationary effect. He was able to convince his chief, John Snyder, of his sincerity to such effect that Snyder capped his own defeat by supporting his resistant subordinate for the FRB chairmanship in 1951.

The FRB can influence the economy by changing reserve requirements or the discount rate, and by buying or selling securities. All of these actions tend either to speed up or slow down the economy. But the difficulty is that the controls are too coarse. Martin learned this in mid-1953, when his anti-inflationary action caused a bond panic and was soon canceled by the sharp counteraction that led to the last big boom. Martin is now in the middle of a similar situation, and it will require all of the competence hidden behind the modesty to extricate himself from the dilemma.—D.F.

Developments here and abroad show that unions are gradually moving into a position where they can influence management decisions

Are Unions Going Into Management?

by Adolf Sturmthal



A NUMBER of recent moves, both here and abroad, to extend the scope of union influence on decision-making in the plant have stirred up a good deal of controversy. At issue is the traditional relationship between management, owner and union. Walter Reuther's recent profit-sharing proposal, the German codetermination law, the role of unions in the management of nationalized industries in France and Britain, the function of the works' councils in Sweden and Austria and other arrangements of a similar nature all pose some fundamental questions.

Is the Western world confronted with a trend toward workers' participation in management? What are the proper limits to the functions which workers, owners and management are to perform in a system of private enterprise, if that system is to work efficiently?

Are the attempts to enlarge the worker's role endangering the system itself?

Union proposals to extend the scope of labor influence in the plant have naturally evoked protest. But the historian of social ideas will easily recognize familiar concepts in the new ideas or institutions.

Every age since the Industrial Revolution seems to have felt that labor's demands for enlarged union authority threatened to restrict management in a fashion incompatible with the effective operation of our system.

Some inconsistencies on both sides deserve note. The attacks on the Reuther proposals for profit sharing have passed over the fact that profit-sharing suggestions traditionally have come from management. It is true that once the principle of profit sharing is accepted, the division of authority

between management and labor tends to become fuzzy.

Workers' interest

For when the workers' income consists not only of his wage, but also of a share in the profits, everything that affects that share and, therefore, anything that influences the volume of profits becomes a matter of direct interest to the worker. That includes such matters as the volume and the nature of the investments made by the firms, the dividends paid out and the profits retained, and bonuses paid to the members of the board of directors and management. Even the design of the product, indeed, all management decisions affect the volume of profits and thus the size of the workers' share in them. If it is admitted that workers may bargain collectively about their wages—and this is the law of the land—then, under a profit-sharing scheme, almost any area of management authority may become a subject for union-management negotiations.

The same applies logically to most incentive pay arrangements. For then any management decision that may affect the workers' ability to earn incentive supplements comes within the scope of collective bargaining. In other words, any scheme which tends to make the worker a partner in the

enterprise, and the worker's income directly dependent upon fluctuations in the prosperity of the plant, gives the "partner" some status in management decisions.

Inevitably, responsibility must correspond to authority. The further the union extends its influence upon the policies of the firm, the more extensive is the scope of union responsibility. Most unions, on the other hand, are unwilling to recognize the implications of such an extension of their authority. Most American unionists have criticized their German colleagues for taking positions of responsibility in management according to the terms of the codetermination system; some German unionists have even accepted seats on the boards of supervision of the coal and steel plants.

It may well be that such open and frank assumption of responsibility places the union in the ambiguous position of representing both management and workers. The British unions have decided that unionists must resign their union offices when appointed to the managing boards of the nationalized industries. Yet the refusal to assume open responsi-

Adolf Sturmthal, Visiting Professor of Industrial Relations at the Columbia University Graduate School of Business, is generally recognized as a leading expert in labor-management relations in the United States and in Europe.

bility does not free the unions altogether from their burdens.

How far does union participation in managerial decision-making extend? Are there areas which, in the interest of good management, must necessarily be excluded from collective bargaining? So far, there has been no clear tendency on the part of American unions to extend bargaining far beyond the area of personnel problems, although questions relating to price and other matters have been raised by union representatives. But the theory of collective bargaining does not indicate where a limit for union participation in managerial decision-making can be drawn.

Ever-widening sphere

In the words of a group of leading authorities in the field, "up to now it has never been possible to obtain agreement on a set of 'management prerogatives' which are exempt from bargaining." On the whole, public opinion and public agencies have—sometimes reluctantly and grudgingly—accepted an ever-widening sphere of union participation. At present, there is no sign that this process has reached its end.

A number of authors describe the collective agreement in terms that affirm the union's right to participate in management decisions. But American labor leaders,

in particular, have been eager to present the agreement as a pure and simple wage bargain, a market transaction comparable to the purchase or sale of raw materials or a piece of equipment. Such an interpretation, however, does not seem to fit the facts too well. The collective agreement opens up a continuing association between management and union quite different from an ordinary sale. The grievance procedure, operative during the life of the contract, embodies these long-term relations.

Most specialists, therefore, prefer to regard the agreement as either the constitution of an industrial government or as the foundation for a managerial role of the union. Under the first version, the contract is the constitution of an industrial government; the legislature is provided by the grievance committees whose decisions supplement the constitution (contract); the judiciary functions are in the hands of the impartial umpire; and management represents the executive, since it takes the initiative within the framework of constitution and legislation. The principle of exclusive bargaining rights, which gives the majority union the right and duty to represent all the workers in the bargaining unit, equals the concept of sovereignty in the wider community of na-

tions. Compulsory union membership is similar, in this view, to the citizen's duty to pay taxes.

The managerial theory regards collective bargaining as a form of management, a method for making business decisions. The union's wishes to be or not to be a partner in business management are immaterial from this point of view. The fact is that the union, by the process of collective bargaining, plays a managerial role. In providing a framework within which management may operate, the agreement sets limits to the exercise of managerial authority. Although union-imposed limitations do not apply with equal force to all levels of decision-making, it is significant that they operate with particular emphasis on the top level of management, where the final authority of the business rests.

In either of these two interpretations, the union does assume some functions that are commonly described as managerial. Quite possibly these are only minor functions, particularly on the level of executive management, since the union may only challenge management decisions, but cannot countermand them. Yet the union's actions are management functions, and they do raise the fundamental issue of union responsibility.

If the union is a partner in the government of the industrial com-

monwealth, or shares in the system of decision-making in business, to whom is it responsible? Management in law, though not by any means always in fact, represents the owner, the stockholder. The union has, at the most, a political responsibility towards its members. This political responsibility is reduced or destroyed to the extent that union democracy is weakened or abolished. This is comparable to many cases where stockholder apathy renders management responsibility a fiction. The fact that democratic responsibility is a weak factor in two of the most powerful institutions of our time—the corporation and the union—means that they exert illegitimate power in a society which recognizes only one source of legitimate power, the will of those represented. Yet even if we solved the problem by a masterpiece of social engineering, significant questions would remain unsettled.

Two sources of power?

In the first place, can there be two sources of power in the enterprise if it is to be run efficiently? If both management and union, the representatives of the owners and those of the workers, have a share in decision-making, will not such divided authority interfere with efficiency?

There is no simple and definitive

answer to this question. Some part of it is in the principle that only at the top levels of management does the union have a share in decision-making. At all other levels it may only challenge decisions by the grievance procedure. The right of initiative is reserved to the representatives of the owners alone. Even when challenged, their decisions stand until the grievance adjudication has run its course. Still, with all these precautions, union participation in management may reduce efficiency and interfere, to some extent, with the end purpose of the enterprise.

Two replies can be made to this statement. Efficiency is commonly measured in terms of the relationship between costs and proceeds, inputs and outputs. Important as these yardsticks are, they may be insufficient to take into account human costs of production as fully as the material costs. A somewhat reduced output of goods and services combined with a greater sense of satisfaction on the part of the workforce may, for some observers at least, represent a higher efficiency. Second, the interests of the owners do not always coincide with those of

the community. Monopoly power may ensure profits at the expense of the community's best interests.

Neither of these answers is fully satisfactory. The process of fitting the union into the structure of management is far from completed. Perhaps this is one of those issues for which no final solution exists, but which each generation has to tackle again in the light of its own values.

Moreover, there is reason to doubt that any of the solutions suggested thus far have really solved the age-old problem of modern industrial society: how to render meaningful once again the work of the man in the mass-production plant. Giving the union leader status in the management structure may be justified in many ways—but does this give the union member himself a sense of participation? Some observers feel that joining two oligarchies together—that of the union and that of management—does not create a democracy. They emphasize the maintenance and re-establishment of union democracy as the primary task of those who aim at making effective the workers' participation in decision-making. ■

Tours in Translation

IN PARIS, a tourist agency has solved the language problem on its city bus tours. It has installed a small speaker beside each seat which enables the tourist to tune in on a prerecorded commentary spoken in his own language. The bus has a technician who synchronizes these multilingual descriptions with the passing landmarks.

Ludwig Erhard

Vice Chancellor and Minister for Economic
Affairs of the German Federal Republic

The Free Market Economy Works



Roy Bernard Photo

Q *Dr. Erhard, you have become a world symbol for free market policies. Do you believe that there is a connection between the unquestioned success of the German economy since 1948 and the particular policies which you have undertaken?*

A I think that question can be answered with an unqualified "yes." Of course, this does not mean that I was alone responsible for the remarkable recovery of the German economy—that was the work of the whole German people. On the other hand, it is undoubtedly true, as the experience of other comparable countries has shown, that the economic system determines how economically fruitful and effective the labors of a people will be. Only in a free economy is it possible for democracy to exist as a social system, and only the free market will guarantee that national resources will be utilized in the most meaningful and useful manner. Only the free market releases those forces which are necessary to stimulate a people to greater and more economic efforts, and only free competition in the market secures a people against the exploitation of cartels and similar monopolies.

Q *So that the economic success of Germany with a free market policy has important lessons for Europe and perhaps for the whole world?*

A That is my firm conviction. When Germany first introduced free market policies in 1948, no one could tell what kind of an economic

system would be proposed in case of European economic integration. England still had a Labor government and many other countries were dominated by decidedly socialist doctrines and ideologies. But today, even the socialist parties have—at least in Germany—assumed certain liberal free market policies. In the recent negotiations on the creation of the common market, for example, it seems to have been taken for granted that the international economic system that they were creating would be a free market economy. Certainly, the German experience has contributed to this clarification of economic thought.

Q *Dr. Erhard, what do you mean by the term "free market?" Do you have in mind the economic ideals of the 19th-century Manchester economists, or what we in America have, called "people's capitalism"—a broader distribution of income, of stocks, etc.?*

A I believe that my conceptions are very similar to those of contemporary America. Certainly, my concept of the social market economy has nothing in common with the ideas of the earlier Manchester school. For, the overriding principle of my concept is free price formation and competition, whereas 100 years ago, and indeed until quite recently in Germany, it was considered as the unquestioned right (a part of the freedom of the employer) to combine in cartels to fix prices. But today, both our countries agree in our cartel legislation, for while the German cartel law is only a beginning, it does at least indicate a strong intention.

Q *Are there any other differences between your concept of the free market economy and the idea of the "old" capitalism?*

A Yes. For example, we do not believe that the state should be just a policeman; we believe that the state has certain sociopolitical goals to realize. We in Germany have shown our awareness of this through our broad income tax which distributes the social productive capital of the nation into many hands. We also believe that the small saver should become a true joint owner in the capital of the nation. Only in that way is it possible to answer confused socialist conceptions which dream of an anonymous joint ownership. Under socialism the

theory is that what belongs to the state also belongs to the people. But the people can't do anything with this right.

Q *Many economists would agree with you concerning the benefits to be derived from a free market economy in highly industrialized countries. But some of these economists would question the applicability of free market economics to underdeveloped countries where it is a question of rapid capital formation which, they might argue, is not realizable through a free market economy. What is your opinion?*

A Certainly, I do not believe that all countries and all peoples are ready for a free market economy. For one thing, the free market economy, in order to be a success, demands a willingness among the people to work—a willingness which is not always there. On the other hand, I do not think that underdeveloped countries have less capital formation *because* they fail to follow free market policies. Indeed, it is my firm conviction that, once a certain level of culture and civilization has been attained, underdeveloped countries can do very well with a free market economy precisely because it destroys the illusion that you can get something for nothing. The free market economy makes clear that all wealth, be it individual or national, must be produced and worked for. And even if one avoids the system, one cannot escape that basic truth.

Underdeveloped countries and the “great man” illusion

Q *In other words, you do not believe, then, that a system of state planning is necessary in such underdeveloped areas?*

A Well, I would avoid giving general solutions. It is not a cardinal sin if the state of an underdeveloped and industrializing country takes its people by the hand and helps to achieve certain specific goals. But, in general, this sort of thing tends to lead to mistaken investments and to a slowing of productive growth. And it is precisely the underdeveloped countries which tend to suffer from a sort of “great man” illusion. They like to build imposing economic structures on nonexistent economic foundations. But such projects do not attract private investors, for they are always under state management. In many of these countries the population is yet unaccustomed to think-

ing in economic terms, and there are not many people who have been trained for truly meaningful economic enterprises. Nevertheless, I do feel that these countries, after an initial phase of guidance by the state, may achieve the status of a free social economy.

Q *Dr. Erhard, it has been said that you have certain reservations concerning the common market conception. What are they?*

A I feel that your question may give a wrong impression. I have always preferred general economic integration plans to the more limited and parceled versions which deal with only one aspect of the economy, such as steel. The reason for this is that I do not believe that one can pursue an economic policy for steel and not pursue a similar policy for coal. I just do not believe that it is possible to pursue an international policy with respect to coal and steel as long as other aspects of the economy are managed nationally. In that sense, I believe, the movement towards a common European market is in the right direction because it includes the entire international economy of the area.

Q *What were your objections then?*

A I have two reservations concerning the common market, but these are both good "European" reservations. One is that I believe the time period for its realization is too long. I think there should be more confidence, more trust, in the common market so that it can be realized more quickly. Another objection is this. If one wants a common market, then it is necessary not to include too many limiting clauses in order to escape from the consequences of the common market. In other words, the objectives which I have to the agreement are precisely that it seems to me to indicate too little of a common Europe. But I am a realist and conscious of the practical possibilities. It is, therefore, with some satisfaction that I look back on the participation of my government in the creation of the common market, and I am also happy to contribute to the common effort in the Council of the European Economic Community. You can rest assured that I shall continue to strive in the European community for a policy which corresponds to our German assumptions, not because these are the German assumptions but because they are good European principles.

Q Then you do not see any conflict between being a good European and a good member of the world community. As you know, many Americans fear that the common market will create a high tariff wall which may disrupt free international economic relationships. Do you believe that there is such a conflict between an international free market economy and a small and somewhat exclusive European community?

A In principle, I think that your question is very well taken. That very point was one of my big worries when the common market was negotiated—that, while we may gradually (during a period of 12 to 15 years) reduce certain tariffs and quotas in the common market itself, we may then decide to become exclusively protectionistic against non-members by building high tariff walls against them. I have vigorously fought against this idea, and I think that such fears have been eliminated in that the common market will be accompanied contemporaneously by a free trade area.

Chronic softening of purchasing power and monetary values

Q One important problem for the free market economy in Germany and in other highly industrialized countries is the tendency towards administered prices and wages through large unions and businesses. What do you think can be done about this trend?

A Of course, this trend does imply a certain limitation to the free market competitive economy. But these are the social requirements which prevail in this 20th century, and I do not believe that they can any longer be changed. There is, however, one thing which I do think we could and should change. We recognize the possibility of misuse of economic or political power in the decisions and relationships of the major groups in economic life, such as large businesses and labor unions. I believe that the decisions of these groups have proved so inflationary that the free world cannot afford to watch their activities without doing something about it. Such policies, permanently practiced, result in a chronic softening of purchasing power and of monetary values.

Q How are you coping with this problem in Germany?

A We are trying, through a system of voluntary arbitration which

has been worked out between the two parties, and through similar procedures, to prevent strikes. But are the results satisfactory? Even if we accept the fact that labor unions and business enterprises often have to make do with only half of what they asked for, the result is still unsatisfactory and impossible from an economic point of view. If the productivity increases of the economy are X per cent, then it is simply impossible to demand 3X. It is impossible to ask for higher wages while wishing to work less; to make more demands of the state while wishing to pay fewer taxes and live better. These things are mutually exclusive. But that is exactly the sort of demands that are being made.

Q Dr. Erhard, you said earlier that there are certain social duties which the state must perform. What are these social duties, and where do you draw the line? Where does the welfare state begin and the free market economy end?

A I do not believe that a general answer to this question is possible, for the answers would differ in different countries. As far as Germany is concerned, I should like to say this: certainly it was the duty of the state after the Currency Reform to deal with the stream of refugees pouring out of Eastern Germany and Eastern Europe and relieve their misery—in other words, to enter the construction industry and see to it that these people again had a roof over their heads. This was a typical social duty of the state, because after the Currency Reform there was no available private capital. Under such circumstances, the free economy would necessarily have failed. There may be many other situations in which the state has a legitimate function. Thus, I believe that in all cases where group interests distort or destroy competition, free price formation and so forth, the state will have to enter.

Q And in order to do these things the state must play an active role?

A Yes. I do not believe that any country has yet found the ideal solution. The fundamental difference between the liberalism of 100 years ago and the liberalism of today is this: in the 19th century the state was a passive policeman; today it is an active protector of liberty.

Q Thank you, Dr. Erhard. ■

Everyday Economics

WITH THE growing interest in science, some college selection hints might help high school students and their parents. The school should offer a wide range of courses in mathematics, chemistry, physics, biology and geology. Its faculty should be composed of competent men. Biographical volumes, such as *American Men of Science*, can furnish information about the number of them holding honorary degrees or membership in renowned scientific academies. The school's laboratory facilities deserve consideration. In addition, there should be no neglect of facts concerning the type of research being done at the college, and the amount of government and foundation grants it is receiving.

Scrutiny of the label



MEDICAL authorities caution all heart patients on sodium restricted diets to read the fine print on the labels of the food they buy. In

many cases, food identified on the label as salt free may still contain some other sodium compound used as a preservative or as an aid to processing. According to these experts, many people are still confused about the difference between sodium and salt. They mistakenly assume that sodium is another name for salt, and when they see a food labeled "salt free," they interpret this to mean "sodium free" as well. Actually, salt, known chemically as sodium chloride, is only one of many sodium compounds.

Abroad with a car



IF YOU are going abroad this summer and intend to take your car, you should secure a *triptyque* from an automobile association affiliated with the International Touring Alliance. A triptyque is a customs pass which gives you the privilege of temporarily importing your car into a foreign country without having to pay a

duty on it. In addition, you must acquire international license plates and an international registration certificate. For permission to drive, all you need is your state driver's license and an international driving permit.

They're still around



MOST of us are still interested in ways of detecting counterfeit coins.

Since genuine coins have a bell-like ring when dropped on a hard surface, spurious ones can be recognized by their dull sound. If a coin feels greasy, compare it with authentic coins of the same denomination to discover other irregularities. The edges of most counterfeits can be cut easily with a knife, but this is not so with bona fide coins. The acid test is effective. A drop of nitric acid will blacken the surface of most counterfeit coins, while having no discoloring effects on legitimate ones.

Ailments out front



INADEQUATE soil aeration or drainage, overwatering and improper clip-

ping may make your lawn more susceptible to disease. These diseases can be controlled by fungicides. But when you use these chemicals, be sure to follow the

directions on the container since they are poisonous. Often, injuries from other causes, such as fertilizer burns, drought and excess use of weed killers, may be mistaken for disease symptoms and lead to an unnecessary and harmful application of fungicides.

Bigger checks?



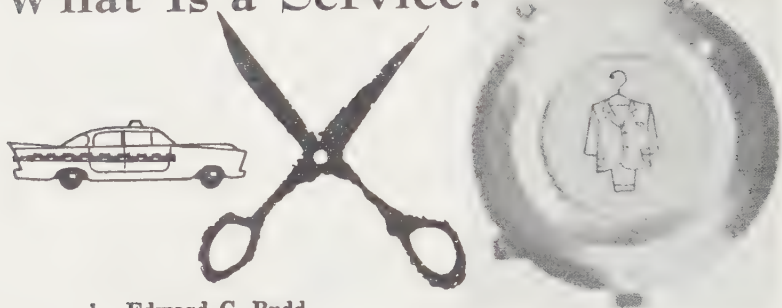
PEOPLE who work after 65 can expect very little difference in the size of their Social Security retirement checks. The amount of these benefits is based on the average monthly earnings for the years a person has worked. Only a considerable salary boost after 65 can have something more than a negligible effect.

Sloping bargains



IF YOU want to build an inexpensive house in the suburbs, a suitable location to build on might be a hillside lot. These lots can be purchased at half the price paid for level lots because of the problems encountered in building on them. However, these problems are now being removed by prefabricated manufacturers who have begun to make medium-cost houses especially for up-and-down lots. You can reduce your building cost considerably by taking advantage of this low-price situation.—L.B.

What Is a Service?



by Edward C. Budd

Economists tell us that there has been an increase in the service area of the economy, but they cannot agree on what "services" are

YOU HAVE READ of the growing importance of services and the service industries in our economy. Some experts have even proclaimed the principle that the consumption of services can be expected to rise relative to the consumption of commodities in our expanding economy. While personal consumption per capita in constant 1957 dollars increased from roughly \$350 in the 1870s to about \$1,100 in 1929, and last year topped the over \$1,600 figure, consumption of services has risen by an even greater proportion, from approximately \$100 in the 1870s to \$400 in 1929, and more than \$600 in 1957.

Nevertheless, in economics things are not always what they appear to be. It is not my purpose here to cast doubt on the reliability of the statistics. Rather it is to question the somewhat glib

distinction we are accustomed to making between commodities and services.

You might test your skill in classifying the following: groceries purchased in a food store; meals purchased in a restaurant; the tip-rewarded service of a waiter; work done by a taxi driver; a portrait made by a photographic studio; rental of a house; water piped into a house; natural gas used for home heating; fuel oil used for the same purpose; ice used in an old-fashioned icebox; newspapers purchased at a newsstand; newspapers delivered to a home. The Department of Commerce classifies the first three and last four as "goods"; the others as "services." This listing is important in the Department's national income accounts.

The groceries appear to be a relatively clear-cut case of com-

modities, for they are tangible goods which can be placed in bags and carried away. Even though one may pocket a few lumps of sugar for his youngsters at home, or order a hamburger to take with him, restaurant meals cannot generally be carted away in the same way as groceries. Nevertheless, they do have all the earmarks of tangibility; they can be seen, felt, tasted and sniffed.

The work done by the waiter and the taxi driver presents a harder problem. The Commerce Department classifies the restaurant tip as payment for a commodity. This astonishing judgment is supported by the reasoning that the tip represents only a partial payment for the value of the waiter's services, the remainder being included in the price of the meal. Since the services of those preparing and serving the meal are an inseparable part of the meal itself, it can be argued that the entire payment ought to be credited to the value of restaurant meals as a commodity. The value of the taxicab ride, on the other hand, is already counted under services, and it seems quite reasonable to include the tip as part of the value of this service.

This by no means disposes of all of the difficult cases. Natural gas,

as I have noted, is classed as a service, while fuel oil is listed as a commodity, although both are used for the same purpose. Perhaps we can justify the difference in classification by pointing to the liquid character of the latter and to the fact that it can be stored by consumers. The same might be said for the electricity used to operate a refrigerator (a service), in distinction to the ice needed for an old-fashioned icebox (a commodity). Yet we feel instinctively that water (classified, along with other household utilities, as a service) is tangible in a way that gas and electricity are not. That drink of bourbon, ice and water you may have tried the other night represents a real blend of commodity and service.

No hard and fast rules can be laid down. The common sense rule of intangibility is violated by the photographic prints and portraits produced by photographic studios, classed like water as services, examples sufficient to reject the facetious suggestion of one economist that "if it's neither solid nor liquid, it's a service."

If we think of the services performed by professional persons, by barbers and beauty shop operators, and by domestic servants, we may tend to identify a service with human labor. But this view would be erroneous. It is true that the value of every good we con-

Edward C. Budd, Professor of Economics at Yale University, is an expert in national income accounting.

sume, whether a commodity or a service, is composed of the value of the productive services—labor and capital—that enter into it. While domestic service is contributed entirely by labor, there are many services in which the proportion of capital is very high. For housing services it is virtually 100 per cent. Thus services cannot be equated with human labor, and we cannot make a definition based solely on the industry or activity.

The important thing is not the industry but the end product. The attempt, however, to approach the definition from the commodity side meets with little more success. While we might view as a commodity any item which can be put in a container and carried away, such a "packaged or portable" rule would place restaurant meals outside the pale. It would, perhaps, be more accurate to define a commodity as any product that can be stored or "inventoried" by consumers. Even here, however, there are many perishable commodities that a consumer finds it inadvisable, if not impossible, to stock. With only a short lapse of time, ice melts, strawberries spoil, bread becomes stale.

"Pantry stocks"

There are other commodities which rapidly lose their economic value although they do not

change. Many of us who have large stacks of newspapers in the basement would hardly consider them on a par with the small stocks of canned goods which may be similarly located. If the distinction is to be based on the consumer's ability to acquire "pantry stocks," we shall be forced to narrow considerably our definition of a commodity and broaden that for a service.

More than 50 years ago, one of America's most distinguished economists, Irving Fisher, proposed a solution. He argued that consumption is made up entirely of services, whether these services are produced by business firms and furnished directly to consumers (e.g. laundry and dry cleaning), or furnished directly by workers to consumers (e.g. maids, gardeners, baby sitters), or furnished by commodities that are either owned directly by consumers or rented by them from someone else (e.g. use of dwellings). According to Fisher, the purchase of a piano is not consumption, but rather the acquisition of wealth; consumption occurs later when the piano is used to supply music.

The same line of reasoning he applied even to perishable goods. A loaf of bread represents wealth; not until it is eaten is its value to be counted as consumption. In Fisher's words, "The use of the

bread is just as distinct from the bread itself as the use of a dwelling is distinct from the dwelling. The difference is purely one of degree: the uses of the bread follow the acquisition of the bread almost instantly, whereas the uses of the dwelling are not completely ended until many years after the dwelling is acquired."

How much difference?

Let us see how much difference Fisher's method would make to our definition of consumption and its components. This we can easily do by comparing the present treatment of consumer durable goods in the national income accounts with Fisher's principle: only the *use* of dwellings, as measured by the values for which they are rented, is counted, not the value of the houses which are constructed or purchased, during the year.

Nor does it make any difference who owns the house. If you buy the house from your landlord and continue to live in it yourself, consumption is not reduced, for the national income estimators now consider that you are renting the house to yourself and they calculate or "impute" a value for your rent equal to what you paid your landlord or what you could rent the house for now.

According to Fisher's principle, exactly the same procedure should

be used for consumer durable goods such as autos: we should count only their rental or use value to their owners as equal to their imputed rent. In fact, the present practice is quite different, and we find the following items relating to automobiles currently included in consumption expenditures: new cars, tires, parts, accessories, gas and oil, automotive repair and maintenance, washing, parking and storage, tolls, operating expenses and profits of automobile insurance companies, and interest paid on auto loans.

This procedure overstates the consumption of *new* cars, for their purchase price is far greater than their annual use value. Thus the Commerce Department says you "consumed" a 2,500-dollar car at the moment you bought it; Fisher would spread that 2,500 dollars over the lifetime of the car and say you "consumed," say, 800 dollars worth of the car during the first year of use. In any case, the commodity-service distinction for automobiles is clearly an arbitrary one.

If, for example, the present growth of consumer auto rentals continues, the proportion of services to consumption will rise, even though the consumer would be getting the same "transportation service" as before. On the other hand, if we consider the entire category of "transportation serv-

ices," including the services of streetcars, buses, taxicabs and railroads, it is evident that these services have undergone a relative decline largely because of a rise in the use of the automobile, the services of which are counted in part under commodities.

The same is true for other goods. In fact, the division of consumption between commodities and services is as much a function of the organization of businesses and of households, and of the division of functions between them, as it is of the fundamental character of consumption itself. Thus, commercial laundering (a service) has fallen by one-fourth in relative importance since 1929, not because clothes are less clean, but because of the increased sale of home laundry equipment (a durable good). Motion picture theaters (a service) have been eclipsed by the rise of television, in which new sets are a commodity and the repairs a service.

If all this seems illogical, let me hasten to point out that there are reasons for measuring and classifying consumption the way we do. For housing, Fisher's principle works well. A relatively broad market for rental housing accommodations exists, and it is

not too difficult to fill in the missing rental value for the owner who insists on living in his own house. But nearly all consumer durable goods are owned directly by households rather than being rented, and we have no market-determined rental rates which we can apply to such goods to determine their use value. The only alternative measurement technique would be likely to raise more problems than it resolves. Thus we must ignore Fisher's definition and insist that the purchaser of a durable good like an automobile "consumes" it at the moment of purchase.

It is easier to poke fun at the classifications we have than to devise better alternatives which can be statistically measured. As Fisher recognized, the difference between the value of nondurable goods and the value of their use is probably sufficiently small to be ignored. Hence these goods might well be combined with consumer services into one category. On the other hand, a more adequate treatment of consumer durable goods will probably have to wait for the future. Until then it is wise to be skeptical of any facile distinction between commodities and services. ■

Ah Euphemism!

AT A RECENT bill-collectors convention, a speaker revealed that he and his colleagues no longer wish to be known as bill collectors, but as "guidance workers" aiding those who have mismanaged their budgets.

A New Educational Pattern



by Harold F. Clark and Harold S. Sloan

Modern business and industry have virtually created their own educational system for the future training of personnel at all levels

UNHERALDED and little known, a new American educational pattern—education within industry—has burst into existence, for the greatest part within the past decade. Corporation personnel, familiar enough with their own programs, often express surprise at the over-all growth of the pattern; while others, just now learning of the available educational opportunities, regard the movement as little short of astounding.

Courses of instruction include subjects all the way from those usually considered in elementary and high school to post-PhD seminars dealing with the latest technical developments. Faculties are on a full-time basis or are borrowed from nearby and sometimes distant universities, usually both. One corporation reports an

enrollment of more than 6,000 employee-students in its managerial and supervisory courses alone; another company, at an outlay said to be approximately one million dollars, has recently established in New York City an educational center equivalent to a new engineering school of 1,000 full-time students. Educational budgets may run as high as 40 million dollars a year. It is not uncommon, in fact, for a corporation to stake 12,000 or 15,000 dollars on the education of one man—more than three times the national average outlay for a baccalaureate degree.

Out of the 349 replies to a questionnaire directed to 482 of the largest industrial corporations in the country, 296, or 84.8 per cent, of the respondents reported engaging in educational activities

of some kind. These 296 corporations known to carry on educational activities account for 6,391,717 employees (1955), or 38.8 per cent of the 16,447,000 (1955) employed in mining and manufacturing in the United States. This would seem to indicate that this relatively new sector of education is a sizable proportion of the total educational pattern of the U. S.

Little overlapping

Although comparable in matters of equipment and operation, there is little overlapping between the education conducted by industry and that offered by the traditional institutions. In the technical area, for example, no one institution could possibly hope to offer all the advanced courses that are necessary to prepare graduate engineers adequately for every specialized field. The administration problem alone would be baffling. The financial investment in laboratories and machines necessary for such a wide range of highly specialized teaching would be prohibitive, especially when such equipment can be outdated so quickly. Advanced technical instruction conducted by industry, therefore, is no encroachment upon the prerogatives of the conventional technical institution.

Specialization and the accumulation of new knowledge and techniques in the areas of supervision

and human relations are comparable, in both extent and significance, to the situation existing in the technical fields. During recent years, in fact, a veritable revolution has taken place in industrial management. Progressive management today is employee-conscious. The day of intuitive decisions, crude methods and dominance by a forceful, if sometimes arbitrary, personality has passed. Instead, certain knowledge, recognized skills, and an ability to inspire cooperation are required. For this new approach to industrial management, special training is a necessity. Of the 296 corporations offering educational programs, 268, or 90.5 per cent, reported having courses in management and supervision, and 253, or 85.4 per cent, stated that they taught human relations.

This new pattern of education within industry, however, is by no means confined to those holding college degrees. One corporation offers a program enabling high school graduates the opportunity to become full-fledged draftsmen in six years. At the start, the candidate is paid at the rate cus-

Harold F. Clark is Professor in Charge of Educational Economics at Teachers College, Columbia University. Harold S. Sloan is Director of Research at Fairleigh Dickinson University and Adjunct Professor of Economics in the Graduate School of Arts and Science, New York University.

tomary for high school graduates, but this is increased annually as he advances. Upon completion of the program, assignment is made to the engineering department for permanent employment.

Another company offers a 12-week course of 40 hours per week to laboratory technicians. The training is designed to develop assistants who may assume some of the duties normally performed by technical graduates. Enrollment is limited to 20 students to a class. Two full-time instructors are assigned to the course, and various company personnel are drawn upon for special presentations. Standard textbooks, as well as specially prepared materials, are used.

A third company makes it possible for employees who have been deprived of a high school education to attain one. There are two semesters a year, of either 10 or 16 weeks, depending upon the subject, and special courses are organized during the summer as needs dictate. Graduates receive a diploma, accredited by the city and state boards of education.

Consolidated index

Of the 296 respondents reporting educational programs, 47, or 15.8 per cent, offer a wide variety of courses, generally open to all employees who can benefit by them. A consolidated index listing

such general courses offered by six corporations, selected at random, shows 448 separate titles, many titles being duplicated in the six lists. Almost half are technical subjects on various levels of complexity; 89 have to do with various aspects of management; 28 are office subjects; 25 teach advertising and sales techniques. There are 17 courses in physics and chemistry, 15 in human relations and psychology, 15 in elementary and high school subjects, 14 in orientation, 10 in economics, and four having to do with research procedures. There are only 17 purely avocational or recreational subjects. One corporation will organize a course in any subject for which there is sufficient demand.

In contrast to university tradition, four characteristics of education within industry stand out in perspective. First, the notion that education ends with a college degree is completely untenable in industry today. Of course, academicians have long given voice to this idea as an important element of the good life, but the concept of "commencement" betrays the thought. In the education programs of industry, there can never be the *finis* implicit in commencement.

In the second place, employee-students attending classes conducted by industry are more high-

ly motivated than are college students. At one moment the men are in the factory facing problems and adjusting difficulties; the next moment they are in the classroom analyzing counterparts of the very situations that they faced a moment ago and will face again a moment hence. This is a vital education indeed—a blending of learning, applying, reporting and relearning that plumbs the very depth of reality, on the one hand, and, on the other, reaches out for the new and improved, as revealed by experiment and research. Distant use of knowledge gained need not be envisaged; it will probably be employed that very afternoon.

Then again, in college the immediate objective of one's studies is seldom utility. Presumably what is taught is useful, but this is a by-product of broader concepts, the development of an understanding mind, the creation of an effective personality, or the acquisition of the basic knowledge of a profession. In industry, the immediate objective is invariably utility—perhaps the most effective methods of management, the most approved process of production, or just the best way of getting along with co-workers. Of course, even the most functional instruction may carry the student far beyond the needs of immediate applicability to a given situation. Nevertheless, such broader

concepts as they accrue are usually adjuncts—not ends in themselves.

Finally, the philosophy of education within industry is definitely pragmatic. Does it work? If so, improve it. If not, stop it. And there are ways of finding out seldom available to the university instructor. One example will have to suffice. The training department of one corporation found that executives spent an average of four to five hours a day in reading, including the time spent both in and out of business. Much time could be saved, it was thought, if the executives could learn to read faster. A course in reading improvement was organized. Subsequent tests at the end of the course seemed to indicate that the average reading speed, with no decrease in comprehension, had improved by more than 89 per cent, or a saving of more than two hours a day. The course was continued, and so were the tests. After an interval of three years, more than half of those who had participated in the first course were retested. Fifty per cent were found to be reading even more rapidly than they had at the completion of the course. However, the over-all average for this particular group, after three years, had dropped from 403 words a minute to 392. Even so, this group had started the course reading

only 226 words a minute; an apparent improvement was indicated, therefore, of 78 per cent, and the improvement seemed to be a permanent acquisition. The training department still has some reservations. Continuing tests will be made, but results to date warrant going on with the course.

A case in point

The philosophy of pragmatism, furthermore, permits many procedures that have not yet attained widespread academic respectability. The teaching of creative thinking is a case in point. The theory is advanced that of the two main kinds of thinking—judicial and creative—the former constitutes a large part of formal instruction and grows with experience, while the latter is neglected and atrophies with nonuse. Industry has gone about correcting this neglect. Of the 10 largest corporations in the country, nine offer this sort of instruction in one form or another. In 1955 one company reported that 400 graduates of its creative engineering program had developed new processes and patentable ideas at an average rate nearly three times that of the nongraduates. Others report similar results. The scheme works, and many industrialists hope that the hesitant colleges and universities will one day catch up with it.

Two great educational innovations of an institutional nature have helped shape the civilization in which we live. The first had its beginnings back in the latter part of the 13th century when groups of teachers, scholars, or both, banded together to secure mutual protection and unmolested seclusion, thus inaugurating the first permanent organizations for the transmission of learning. The second was the establishment of the American free public school system, accomplished in principle, at least, at the close of the second quarter of the 19th century. From the first has evolved the modern university; from the second, the conception of publicly supported universal education, free from both the taint of charity and the influence of selfish interests.

It is possible that we are now witnessing, in the educational activities of American industry, the birth of a third great educational force of far-reaching consequences. This third innovation is adapting civilization to a new technological era, the ultimate consequences of which stagger the imagination. Nor is this merely an adjustment to mechanical wonders. It is an integration of new technical skills with revitalized human relationships, envisaging a world augmented not only in material comforts but, far more important, in spiritual values. ■

Economics in **A**ction ---

**three-quarter
measure**

The richest recession in the history of the world has taken on elephantine form. Everybody was agreed that the big animal was tractable. But there were divisions of opinion as to whether the beast should be pulled or pushed, whether a tax cut or a public works program was the solution. Most economists wanted to steer between half measures and drastic reform.

**durable and
perishable**

Unemployment conditions had crossed the threshold of pain. The greatest sufferers were the workers in the durable goods industries, and the heaviest concentrations of unemployment appeared in such centers as Detroit, Providence, Altoona, Wilkes-Barre and Scranton. New England also was hard hit, while big cities dependent on more diverse economic activities, like New York, Chicago, Cleveland and Cincinnati, felt the effects to a lesser degree.

gone east

The irregular character and rhythm of the recession were shown by the varied results throughout the country. The first in the slump was not the first out yet, but the West had felt the falloff back in 1957 and was now in a comparatively better position than the greater part of the country. This was because the West was more dependent on government orders and less dependent on industrial activity. Last year's government cutbacks caused the nation's first extensive layoffs, concentrated then in the West. New federal contracts have since spurred activity to a mildly Wild-West rhythm—compared with the pace of the nation as a whole.

Businessmen had lost the enterprising élan that had carried them so swiftly forward. They were re-

**corporate
comparative**

acting to comparative disappointment. In the last quarter of 1955, corporate profits were at an annual rate of 23 billion dollars. Profits went to 22 billions in 1956 and slipped to a rate of 21 billions by mid-1957, but it has remained almost stable since then. The profit fall had a lagging effect, coming into force only later in 1957. The relative stability might, if other optimistic factors have a chance to operate, have the result of disappointing disappointment expectations and encouraging more business hope.

**double
score**

The economy was also suffering from overrapid expansion of its plant; capacity had almost doubled in our plants in the past two decades. A slight slackening of demand pressure was enough to cause a sharp reaction. Capital outlays for plant and equipment were estimated at 32 billion dollars for 1958 against 37 billions spent in 1957, a 13 per cent fall. Manufacturing was cutting back from 16 to 13 billion dollars, and the railroads, always lagging in necessary capital expenditures, were planning to back up by a half billion from the 1.4 billion dollars expended in 1957.

**basic
design**

The most enterprising man in the economy, the consumer, had not altered his basic philosophy of "more." But he was temporarily postponing some big expenditures and reducing the frills on others. Demanding as much mileage as ever, he was buying used cars and small foreign imports at a ready rate. The new American models were slowed to a sales speed that was estimated at only five million automobiles for 1958, which would make it the worst year since 1952.

**trotting
consumption**

A study conducted by the Federal Reserve Board and the University of Michigan Survey Research Center found the consumer more pessimistic about the general business situation than his own. Of the consumers surveyed, 33 per cent expected good times this year against 60 per cent with similar expectations a

year ago. The resulting cuts in consumer spending plans were of a moderate nature. The consumer had sizable savings, bonds and property holdings and, although output was down three per cent, total personal income had fallen only 1.5 per cent.

**new
deliveries**

Optimistic elements were not lacking. Even if the federal government were not to change matters, it would end the year with a five-billion-dollar deficit, a counter-deflationary force. The swift rate of inventory disinvestment could not keep up, and new purchases to restore depleted stocks would take their effect. Europe still had its boom, if it was less pronounced, and the American birthrate would do its part by producing three million new consumers this year. They would find American industry ready to serve them.

* * *

"Oh, fine!"

WASHINGTON—Commenting on the world economic situation, World Bank president Eugene R. Black observed recently that in spite of the current recession in the U. S. A., the world economy can be expected to expand and prosper—most particularly because of the increasing role of underdeveloped areas as producers and consumers. Since Mr. Black had just returned from an official visit to Egypt, where a certain colonel has his own ideas about how to deal with certain Western European countries, London and especially Paris have some doubts about the rosy economic future that Mr. Black foresees.

**crazy
rhythm**

The importance of the state of the international economy notwithstanding, the nation's capital remains preoccupied with the domestic recession. No one expects a recovery by this fall. And no one in government will say that it will be 24 months before unemployment drops to 2.5 million. In the meantime, our "built-in stabilizers" keep pushing the price index higher and higher, even as a seasonal push raises unemployment to 5.7 million by July. We won't have a depression; but this is the most complex recession ever.

**tax cut
probable**

The election year paternalism of Congress will plague the President for the next six months. He will find it difficult to control the stampede toward all sorts of anti-recession measures. Fervor for a tax cut now seems to have ebbed; but it will rise again during the summer and become irresistible by fall. Unless an unexpected recovery of unmistakable proportions occurs by September, a three-billion-dollar tax cut will be made.

**slow rise,
quick fall**

The atmosphere around the foot hills of the summit is already rarified by a feeling of "no confidence." Khrushchev remains steadfastly vague about what he wants to talk over. The unhappy climbers fear a one-man show at the summit by Khrushchev, who enjoys starring in selected short subjects. The President wants no part in a play which is short on script and long on audience. The prospect is that willy-nilly the summit will be reached. The descent will be more rapid.

**all not
lost**

One practical effect of this almost certain disappointing meeting with Khrushchev will be to boost the chances for President Eisenhower's defense reorganization plans. In spite of vigorous opposition in Congress right now, the President will get influential support as he continues to carry his fight to the people. The summit affair should clinch it.

**trouble
for NATO**

Two discouraging developments: the boiling French political pot will spill over on NATO; and the weakening Conservative government of Britain can only diminish that country's role. NATO will be hard pressed to fulfill its planned doubling of manpower.

**oil in
troubled
waters**

Every foreign-owned oil concession in the Middle East and North Africa, American included, as well as those held in Southeast Asia, is in trouble from now on. "Awakened" and nationalistic governments will insist upon a 60-40 deal, or else. For the big oil companies the next decade promises to be a Time of Troubles. ■

Technological advances can help firms grow, but the philosophy of "if you can't lick 'em, join 'em," works even better

THE GROWTH COMPANIES

by Sidney C. Sufrin

ONE OF the most deeply felt beliefs of America is that progress in the guise of economic growth is a good thing. As much as we desire security, we also are attracted by innovation, institutional change and new products and novel ways of producing old products. Indeed, the current recession is worrisome precisely because it seems to indicate that growth and development are not "inherent" in the American economy.

But all segments of the economy do not grow and develop at the same rate. Some industries grow faster than the average of all industries, and some companies grow faster than the average company growth within the industry.

There are at least four aspects to economic growth.

First, there is the growth of the total economy. This growth may be associated with such natural phenomena as the growth of population, and is usually associated with



the general increase in capital or in the skills of labor and management, or with the discovery of some new resource which has a widespread effect throughout the whole economy. Such growth may be measured either in terms of the whole economy (for example, in the increase in national income), or in terms of some unit, as the increase in per capita income, investment per employee, or value added per worker.

A *second* type of growth is that which is concentrated in a given industry. Thus a new technique may revolutionize production. The development of the internal combustion engine, for example, made possible the automobile industry, which in its turn gave rise to the great petroleum industry and bolstered the construction industry by creating a new demand for

highways. The plastics and electronics industries are more recent examples of growth industries. In these cases, the new product or new technique required a great expansion in new plant investment.

The *third* type of growth results from an increase in demand for the products of an industry which is already well developed. The example that immediately comes to mind is the demand for baby's diapers as a result of the sudden jump in the birth rate during and immediately after World War II. In this case, the investments in fixed capital required to produce diapers had been made long before the sudden, sharp increase in demand. Unlike the kind of growth that results from a revolutionary new technique and is marked by an increase in investments, this kind of growth is marked by *more intensive utilization of existing investments*, and requires relatively little new investment.

The *fourth* type of growth is related to expansion of a firm. It is probably true that more firms tend to get large and prosperous when the industries in which they are located are growing, just as industries tend to grow at a faster rate when the whole economy is expanding. But these relationships

do not *necessarily* hold. An example of this is the disappearance of several of the smaller television manufacturing companies during the postwar period when the television industry as a whole was expanding rapidly. The success of certain textile companies at a time when the textile industry as a whole was declining, or at least suffering fairly general losses, is another illustration of firms not following the trend of their industry.

This obvious truth—that firms grow at different rates than their industries or the over-all economy—is not always recognized. I remember a businessman, who on other matters was astute, suggesting that one proper way to invest was to paste a list of the firms in the New York Stock Exchange on a wall, step back 10 paces and throw darts at the list. Wherever a dart struck, there one should invest! The implicit argument was that the whole market of equities tends to move together. Investigation of the market itself shows this to be utter nonsense.

It is true, of course, that when the whole economy is expanding, or when the whole industry is growing, individual firms have a better chance to grow than if the reverse were true. But the probability of any firm growing at the same rate or faster than its industry depends, among other

Sidney C. Sufrin is Director of the Maxwell Research Center of Syracuse University.

things, upon the management, the availability of capital, the skill of the working force, advertising and all the attributes which make for a strong firm.

Implied risks

Experience indicates that the first firm to develop a product or technique is not necessarily the firm which will experience the greatest growth and profitability. Growth and development imply risks—both in the manufacturing process and in the possible unwillingness of the consumer, ultimate or industrial, to accept a new product or technique. The slow start of “artificial silks” after World War I occurred partly because artificial silks were somewhat less attractive than natural silk, but also because the price of pure silk had fallen after the war, and the competitive position of the artificial silks was thereby reduced. Similarly, the Welsbach gas mantle never had a chance, although it was a highly efficient source of light, because the incandescent bulb which required electricity and not gas at all was put on the market at about the same time. These are but two examples of the risk of innovation and novelty.

Another type of risk implicit in industrial growth is related to the manufacturing process. A case in point is the history of the pro-

duction of penicillin. In the early days of penicillin manufacture, the technique was costly and the results uncertain. There was a great deal of waste. As time went on, the efficiencies of production increased enormously, controls were introduced and costs were lowered. Firms which had access to the newer techniques were generally more successful than some of the pioneer firms which were forced for one reason or another to rely upon older techniques. As one businessman has put it, the first firm in the industry breaks the ground, the second firm makes the money. This is not universally true, but it is an observation which is worth while considering.

New techniques, new products which have captured the public imagination, or which promise to capture the imagination of industrialists and the general public, have a high potential growth. Electronics, antibiotics and chemicals are but a few of the examples which immediately come to mind. The potential investor, however, finds that he is not alone in his wisdom. Other people also believe these new industries will show great profit and will expand as time goes on. The increase in demand for the stocks of such industries boosts their price. This *discounting of future values* is one of the great functions of the speculative market, and in general has

the effect of lending a certain stability to stock prices.

A word of caution, however, is in order. Even though there is general acceptance that a given industry or a given firm will expand and the discounting process starts, there remains an element of risk. Some new technique, some new device, some new consumption goods, may, in the future, take the place of this potentially significant and important industry or company.

It is always well to remember that the great promise of canals and turnpikes in the early part of the last century was never completely realized because railroads were a more efficient, faster means of travel and of carrying goods. Similarly, in more recent years, the great promise of the movies as "the" medium of entertainment was not realized because of changes in public tastes and because of television. The market place operates with remarkable impersonality and respects neither persons nor investments.

Follows a pattern

What we have in effect been saying is that certain elements outside the market place—technology, personality, changes in public taste and sheer luck—enter into the market place to make a firm or an industry expand sharply or decline. We sim-

ply do not know enough about these elements to include them in a market analysis. Here, of course, is one of the great challenges to the social business sciences.

Nevertheless, we can say something meaningful about the growth of industries. By and large, industrial growth tends to follow a pattern. In general, the rate of growth is greatest during the earlier years of the production of the particular product, slowing up as time goes on and as the investment requirements are met. This, however, is not always the case. In some industries there are periods of great growth followed by periods of reduced expansion which are preludes to renewed growth. Petroleum, steel and aluminum are cases in point. New technology has increased the demand for petroleum products for home heating; new technology has increased the demand for aluminum and magnesium; while the general growth of the economy in the postwar period increased the demand for steel. But, one can scarcely anticipate new technology and future changes in consumer demand.

Even though we cannot anticipate changes in technology and shifts in demand, they do occur, and each change in technology may unlock a whole warehouse of scientific knowledge which is readily transferable into technological

change with great repercussions on industrial growth. Just as the development of the internal combustion engine opened the economic doors to the oil and road building industries, so the cheap development of atomic energy, and of other new products and techniques will open the door to the use of knowledge which at present has only scientific or academic interest.

No discussion of growth can avoid a comment on automation. I believe that automation does not spell mass unemployment, and that, on the whole, automation will result in increasing not only the flow of goods and services, but also the long-run level of employment. I should like to add another point, namely, that automation spreads quickly throughout an industry. Thus, if the growth in a given firm results from technological innovation, it is very likely that other firms in the same industry will quickly copy the new technique and thus participate in the growth. This tends to spread the growth throughout the industry, and so denies the great poten-

tial of growth to the firm which first made the innovation.

Growth, as we have been discussing it, is largely growth related to technological improvement or product improvement. But the major way in which firms in America have grown is not by technological or product improvement, but rather by amalgamation. With few exceptions, the Ford Motor Co. being one that immediately comes to mind, great American firms have grown by joining with their competitors or, in more recent years, by joining with firms producing quite different products. General Motors, U.S. Steel, Sperry Rand Corp. and Standard Oil Co. represent a few industrial giants whose origins are to be found in relatively small companies. It is not unusual for small firms today to plot their course so that at some point they may become extremely valuable to other, and often larger, companies. The Cash McCall story is fiction to be sure, but the process, without all the shenanigans of the Cash McCall story, occurs with frequency in American industry.■

Answers to Challenge Quiz

(see page 79)

- | | |
|----------------------------------|-----------------------------------|
| (1) False (<i>see page 72</i>) | (7) False (<i>see page 62</i>) |
| (2) False (<i>see page 28</i>) | (8) False (<i>see page 23</i>) |
| (3) True (<i>see page 14</i>) | (9) True (<i>see page 19</i>) |
| (4) True (<i>see page 8</i>) | (10) True (<i>see page 48</i>) |
| (5) True (<i>see page 40</i>) | (11) False (<i>see page 53</i>) |
| (6) True (<i>see page 35</i>) | (12) False (<i>see page 33</i>) |



The Permanent Frontier: No. 7

America was still an infant nation in 1815, but the West, growing industrialization and immigration presaged growth and prosperity

THE UNITED STATES was surrounded by two frontiers in 1815: the *sea* and the *West*. The sea held unfathomable wealth. The West foretold unbounded opportunity. But few people were actively aware of the nation's unique destiny. The affairs of government—except at the local level—affected their daily actions but little. “Political” history, therefore, tells us very little about the kind of lives Americans were leading in these, our “formative,” years.

In 1800, 5.4 million people lived in the United States. One-fifth were slaves (a ratio unchanged since 1775), and not until 1808 would slave importation cease in accordance with Constitutional provision. Less than one-twentieth of the settlements had populations of 6,000 or more. Most of the population—94 out of every 100 Americans—lived in rural communities of 2,500 or less, or in outlying cabin farms.

In rural 19th-century America, work and play were interrelated. The average workweek numbered 72 hours (12 to 14 hours a day). Vacations were unknown, and there were few holidays aside from Sunday. Travel was slow and tedious except among higher income groups.

Clothing and diet were still a badge of station. The increase in cotton manufacture, however, soon eliminated the wearing of silk and linen and curtailed the wearing of wool for all seasons. Dress became more and more standardized. In eating habits, there were more persistent differences between the affluent and common folk.

The American born in 1800 had a life expectancy of 35 years. The most common ailments were typhoid, malaria, rheumatism, dyspepsia, and a catch-all diagnosed simply as “fever.” Consumption of alcoholic beverages was heavy. The well-off drank wine, but rum

was consumed unsparingly by all classes, and to be slightly tipsy and pot-valiant by midday was usual.

Exclusive plutocracy

There were few poor in America during the early 19th century, but there were also few rich. Such men as Washington, Hamilton, Jefferson and Adams belonged to a small and exclusive plutocracy of landholders, professionals and statesmen, merchant-shippers and public creditors.

Already in America, livelihood might determine class status. Superficial class differences were to disappear rapidly during the immediate years ahead, to be reshaped by the leveling influence of universal education and male suffrage. The majority of people cultivated their own land, or followed some handicraft or trade. It is estimated that 80 out of every 100 workers in primary or secondary production (agriculture, forestry, fishing, mining, manufacturing); the other 20 ran the business, distributed the goods or engaged in the professions.

Manufacturing remained relatively primitive. The most typical production unit was the farm household that fabricated small surpluses of rope, candles, soap, earthenware and a host of other

products for the local market. By 1815, however, many family-operated enterprises had begun to branch out into foundries, mills and factories.

Work was slow. Neither employer nor worker gave much thought to productivity. Wages were low, although not as low as in England during this period, for labor was relatively scarce. By 1820, unskilled labor earned between 75 cents and \$1.25 a day and highly skilled labor earned roughly twice as much; while women were paid one-half to three-fourths the rate paid to male workers.

The purchasing power of the dollar was much greater than it is today, but wages were, nevertheless very low. Only a few were well enough off to live on their independent incomes. In the South, those few were the planters, with enormous investments in land and slaves. In New England and the Middle Atlantic states, they were predominantly the large landholders and the merchant-shippers of the port cities.

Domestic business during the period from 1800 to 1820 experienced cycles of prosperity and depression that were directly influenced by America's share in

This is the seventh article of a series in CHALLENGE which deals with the history and development of the United States economy.

foreign commerce. This share was governed by relations with England and by European political events generally. The gains of neutral trade were great, but when peace reigned in Europe, American merchant-shippers were faced with unrestricted British competition. Foreign commerce would fall away, carrying key businesses with it. But on the whole, there were long periods of sustained prosperity, and the economy expanded. Between 1790 and 1800, national wealth doubled, from 1.2 billion dollars (in money terms) to 2.4 billion. It had doubled again by 1825.

Long-awaited chance

Between 1797 and 1815, Europe's preoccupation with the French Revolution and the Napoleonic Wars gave American merchants and manufacturers their long-awaited chance to capture the trade formerly carried by English and French ships. Between 1790 and 1807, the total dollar-value of America's foreign trade increased from 43 million to more than 246 million.

As foreign commerce and shipping expanded, domestic industries also expanded. Thus, the capital accumulated from the Yankee merchant and fishing interests began to flow into the textile industry. The embargo of 1807, nonintercourse with Britain

in 1809—when practically all importations of English cotton were stopped—gave the new spinning mills a chance to sell their products on the local market. With the invention of the cotton gin, power spinning and power weaving, the whole economy of the South and the new-found manufacturing economy of the North burgeoned.

But the dominant interest of Americans during this period was the opening of the West. In 1800, the population west of the Appalachians amounted to 500,000; by 1810, it numbered over one million. After 1800, land was available in 160-acre plots at two dollars an acre; one-fourth was paid down and the remainder was paid over a period of four years out of crop profits. Between 1790 and 1800, the federal government sold less than one million acres of the public domain. Between 1800 and 1810, sales averaged one million acres *a year*.

By 1815, Pittsburgh had become a manufacturing center, already referred to as the "Birmingham of America." The city became a terminal and embarkation point, where merchant-traders from Baltimore and Philadelphia opened up branches. Merchandise brought overland from the coastal cities was exchanged for the products of Pittsburgh and the Ohio Valley. But the overland dis-

tances were vast and harrowing, and by 1811, 1,200 flatboats a year were riding the rapids of the Ohio, bound downriver to the Mississippi and then New Orleans. Here, small portions of the cargoes were sold for cash; the balance was exchanged for sugar and cotton which was then shipped by sea to the Atlantic ports.

Trade engendered industry, and industry begot trade. The new science developed the mechanical power, manufacturing techniques and new means of transport that were essential to settle the vast Western area and to exploit its natural resources. With the opening of the Mississippi watershed, the pioneer settlers began to look westward and southward, rather than to the East. But there was no practical means of shipping return cargoes upstream. This seeming impasse initiated two ventures—the canal and the steamboat—that accelerated economic development throughout the nation. The promoter became a stock figure in the nation's cast of pioneers.

Canal and lock construction put the Western farmer in direct touch with the markets of the Atlantic. Grain and flour flowed in ever-increasing volume through the Erie Canal, down the Hudson and out of the port of New York to world markets.

The upper Midwest, by virtue

of soil and climate, was ideally suited to the staple crops that now challenged the commercial supremacy of King Cotton. Grain was in demand in England, as well as in the Atlantic port cities, and the Great Lakes-Erie Canal-Hudson River system provided a much more direct route to those markets than did the Mississippi. The hope that New Orleans might one day be the nation's leading commercial center now diminished rapidly. The great majority of immigrants entered through the port of New York, thence to spread out northwestward, by way of the Erie Canal, to settle the rich farming areas beyond. The Atlantic ports had long held a record lead in imports. The growing rivalry of New Orleans was now held in check by the North's increased and diversified activities, supplemented by the aggressive spirit of Eastern businessmen, as well as by their liberal credit facilities.

Accelerating tempo

The eventual fate of the Southern economy was evident to only those few who foresaw the merciless pressure of competition and sectional interdependence. The plantation system discouraged immigration of enterprising small farmers and artisans. The dynasty of plantation owners monopolized the choicest lands and

forced the small farmer who did not have the capital to purchase slaves to compete with slave labor. Thus, it was the North and the West that attracted an abundance of hard-working, thrifty, ambitious citizens. It was in the North, and increasingly in the upper Midwest, where one now heard the swiftly accelerating tempo of the Industrial Revolution.

But the tide of the Southern economy would flow and rise higher before its land-based prosperity would begin to ebb. The younger sons of tidewater and uplands planters were founding new dynasties beyond the mountains, in the deltas and along the Mississippi and its tributaries. The South's crops attracted worldwide markets. Now, more than ever, the South was a land of grace, of gentle but persistent traditions. It was also a land obsessed with an inert ideal, the slave-labor economy, unassimilable with the growing national ideal.

The national ideal, the developing character of the nation, were now revealed in three interdependent phenomena: (1) Western settlement and expansion; (2) the commencement of the Industrial Revolution; and (3) the influx of workers and farmers

from the nations of Europe.

The demands and the rewards of the Western frontier instilled a sense of prideful isolation from the East, a prideful isolation that would come to dominate the nation's attitude toward Europe and Old World tradition.

The Industrial Revolution created a more highly diversified economy. Industrial expansion made the East prosperous, it spurred Western settlement, and created sectional interdependence. It also created economic conflicts that would have to be decided by war and the eventual triumph of national unity.

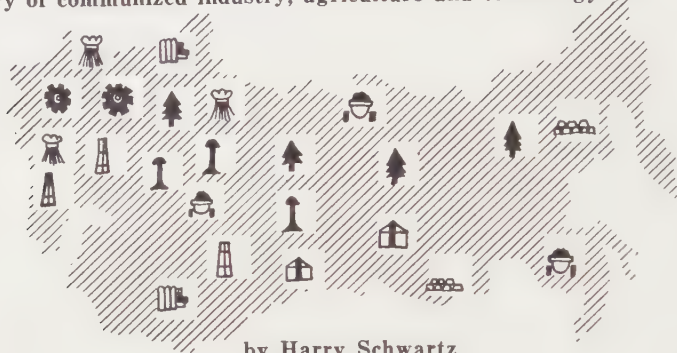
Together, the West and the rise of manufacturing attracted the European populations who gave the nation's stock heterogeneity, a strong fiber of independence within the tightening web of interdependence.

The West, the rise of industry, the increasing heterogeneity of the population catalyzed that fusion of tradition and custom and culture that makes a nation's character.

These were the forces that were to determine the direction and shape of future growth. During this period, their far-reaching effects were beginning now to evolve. ■

NEXT MONTH: Jacksonian democracy establishes new policies
adapted to changing social and economic conditions

Can we measure how well or badly the average Russian lives in the country of communized industry, agriculture and technology?



by Harry Schwartz

The Soviet Living Standard

FROM A human point of view, the test of any society is the extent to which it satisfies the needs and desires of its citizens. This obvious fact, however, has been overlooked in recent Soviet propaganda about the Sputniks. Praise of the Soviet economic system because of its priority in shooting up earth satellites ignores the fact that there is no basic human material need which the Sputniks serve. They cannot be eaten, worn, or—for the while, at least—be lived in.

The relevance of such a test for Soviet society has been admitted by the sufficiently authoritative Joseph V. Stalin. In his last major theoretical work, he defined the "basic law of socialism" as aiming: "To assure maximum satisfaction of the constantly growing

material and cultural requirements of all society through steady growth and improvement of socialist production employing the most advanced technology." Has Soviet society succeeded in assuring "maximum satisfaction" of the "material and cultural requirements" of its people?

How well or how poorly have the Soviet people been living since 1928, when the first Five-Year Plan began?

The concept of standard of living may seem relatively simple. It obviously includes the consumption per person of such goods and services as food, clothing, shelter, entertainment, durable consumer goods, medical care and education. The availability of leisure time is also a factor to be considered.

The measurement of standard

of living may also seem simple. We might determine the quantities of all the goods and services entering into the standard of living each year, divide them by the population for that year, and come out with data on per capita consumption which could then be compared for different years.

This surface simplicity disappears when we actually try to do this for a modern economy, and especially for a society like the Soviet Union since 1928. The profound changes that have taken place in the way Soviet citizens live and work since forced industrialization began three decades ago enormously complicate the actual measurement. Consider these typical examples of complexities with which the measurement of the changing Soviet standard of living is faced:

- Tens of millions of Soviet citizens have moved from farms to cities since 1928. How can we compare data between 1928 and 1958 when the bread the farm housewife baked at home and the shoes the village shoemaker made for her in 1928 were never recorded, although the bread the same woman now buys in a bakery and the shoes she buys in a city store are now in the statistics? Bread and shoes are just two of

the many items for which this comparison problem between the characteristics of rural and urban life is most serious.

- How can you measure quality? Soviet consumer goods and housing are generally of poor quality. How shall we compare a dress bought from a seamstress in 1928, which may have lasted for five years, with a dress bought in 1938, which may have become unusable after a few washings? This is an extreme comparison, of course, but even less extreme differences in quality must be borne in mind as affecting Soviet standard of living comparisons.

- How shall we compare standards of living over greater time periods, when the goods and services consumed have changed substantially because of changing ways of making a living and because of changing technology? Has a man's standard of living increased because in 1958 he rides a bus to his factory job, while in 1928 he walked to the fields which he tilled on his small farm? Has a man's standard of living increased because in 1958 he watches television, while in 1928 he used his free time to visit friends? And how shall we take account of the fact that in 1928 many more millions of Soviet citizens got religious consolation from clergymen than in 1958?

In this magazine last Decem-

Harry Schwartz, chief Soviet analyst for *The New York Times*, is author of *Russia's Soviet Economy*.

ber, Prof. Alexander Gerschenkron pointed out that the Soviet economy is characterized by relatively high investment and relatively low consumption. He noted that the rapid growth of Soviet industrial production since 1928 has been accompanied by a decrease in real wages. In 1952, by no means the worst year, real wages were at least 10 per cent and perhaps as much as 35 or 37 per cent below their 1928 levels. Real wages were even worse over much of the 1928-1952 period, and even now it may be debatable whether real wages have actually regained the 1928 level.

Not the same thing

But real wages and standard of living are not the same thing. Real wages, as used here, means the amount of goods a worker can buy with his earnings. This immediately makes plain that real wage comparisons do not by themselves shed any light on the economic fortunes of the large number of Soviet farm people who do not receive wages as that term is usually understood. Moreover, if we consider family units rather than individual workers, a drop in real wages can be balanced to some extent by an increase in the number of family members who work.

In the Soviet Union, one of the results of the post-1928 drop in

real wages was to force millions of housewives, as well as older children, to go to work to augment the reduced family real income. Falling real wages may even be accompanied by rising family purchasing power, if the family shifts from having one wage earner to two or three. On the other hand, the increased real income this brings about is compensated for by the loss of leisure time for those who have to work, and in addition by the new burdens placed on the housewife who must now work as well as take care of children, shop for and prepare meals, and do the family washing. The net effect of such changes on the standard of living is difficult to evaluate.

Against this background of complexities, what can we say with reasonable certainty about the changing Soviet standard of living?

It is clear that the Soviet standard of living, since 1928, has varied very sharply, being affected profoundly by the convulsive changes in that country. It plunged downward from 1928 to the early 1930s under the impact of forced collectivization (with its great destruction of livestock), of the crop failures and the resultant famines, and of the great surge of millions into Soviet cities.

In the middle and late 1930s,

some improvement occurred as peace and increasing production came to the countryside, while consumer goods production was increased somewhat and rationing discontinued. Urban housing continued to be a very severe problem since grandiose plans for new housing construction fell far short of fulfillment in the face of the great migration to the cities. Millions of those who remained on the farms had to depend on small garden plots to maintain themselves because their earnings from work done in the collectivized fields were very small. This, in turn, was the result of deliberate government policy which aimed at raising the capital needed to industrialize the country by taking farm produce at far below its real value, leaving little behind to be distributed as income among the collective farmers. It is doubtful that the Soviet standard of living ever returned to the 1928 level during the 1930s. In 1939 and 1940, the standard of living may have fallen again as the government stockpiled goods against the threat of involvement in World War II.

Aftermath of war

That war, of course, brought catastrophe to the Soviet people and their standard of living. Much of the richest area of the country was fought over, occupied by

the Germans, and suffered enormous destruction. The productive capacity that remained was concentrated on meeting the needs of the armed forces, while consumer needs were satisfied only at the minimal subsistence level. Inflation was unchecked, since the government often could not meet even the low quantities of consumer goods promised by its rationing system.

With the end of World War II, moderate improvement began as factories were converted to consumer needs and as foreign aid arrived, in part from the United Nations and in part from the seizure of goods in Soviet-occupied areas of Eastern Europe and Asia. But the improvement in the standard of living was slow because Stalin gave first priority to rebuilding factories and other productive installations. In the early postwar period, the housing situation was particularly catastrophic because of the vast destruction in the western Soviet Union and because of the fantastic overcrowding of cities elsewhere. Some groups of farmers did relatively well, however, insofar as they were able to sell their surplus produce for the very high prices prevailing in the free markets. Not until the end of 1947 was it possible to end rationing, and even then this required the confiscation of 90 per cent of all

currency in circulation and the setting of a general price level substantially above that of 1940.

It is clear that the Soviet standard of living has gone up very sharply this past decade compared with the terrible conditions of 1941-47. Production of food and consumer goods has risen greatly; much new housing has been built; medical and educational facilities have been expanded substantially; the normal workweek has been reduced from 48 to 46 hours. Moreover, the benefits of increasing production have been spread somewhat more equally among the population in recent years as the result of sharp increases in the prices paid by the government for farm produce. To make this possible, however, the government has had to keep consumer prices stable since 1954, after having reduced them annually from 1948 to 1954. The Soviet people now probably have a higher living standard than at any time since the 1930s.

The present improved Soviet living standard does not fully satisfy the Soviet people. There is explicit recognition of this in the recent Soviet government promises to end the housing shortage

by the late 1960s and to try, by 1960 or soon thereafter, to give the Soviet people as much milk, butter and meat per capita as Americans have.

Against this background, how shall we rate the Soviet living standard? A fair answer would seem to require attention to at least two aspects of the history discussed above. One is the fact that the Soviet standard of living has been relatively tolerable for the Soviet people only for less than 10 years out of the last 30, and even now fails by a wide margin to meet their aspirations. The second is the fact that much of this deprivation was willed deliberately by the Soviet government, which put military and heavy industrial strength always ahead of consumer needs.

Allowing for World War II, there is little in the unhappy history of the Soviet living standard to suggest that there is any "basic law" of the Soviet system requiring that highest priority be given consumers and their needs. Even today, heavy industry and rocket development hold higher Soviet priority than automobile production, furniture output or even housing construction. ■

Unfavorable Balance in Linguistics

ACCORDING to a George Washington University report, there are only 16 U. S. high schools now teaching the Russian language; of the 16, eight are private and eight public. This is in remarkable contrast to the five or six million Soviet students now studying English.



READING REPORT

What's Happened to our High Schools? John F. Latimer. 196 pp. Washington: Public Affairs Press. \$3.25.

•In 1900, 75.6 per cent of our high school students studied some foreign language; the figure was 22 per cent in 1949. Science study fell from 83.9 to 54.1 per cent, with physics dropping to 5.4 from 19 per cent. Classics Professor Latimer marshals these eloquent statistics in view of the now-admitted crisis in American education. Unfortunately, he contented himself with the mathematics and resolutely resists the temptation, natural to a classics teacher, to discuss the cultural connotations. It is a mistake; the figures deserve hard thought in terms of the philosophy we have denied at the behest of John Dewey.

* * *

Pioneering in Industrial Research. Kendall Birr. 204 pp. Washington: Public Affairs Press. \$4.50.

•This history of the well-organized pioneering by the General Electric Research Laboratory is a competent compendium, but it seems helpless in the face of the individual. Charles Steinmetz, GE's authentic genius, is treated in tangential references, as if he were an embarrassing member of the family. Birr notes the GE

effort to disassociate research expenditures from the business cycle, a hopeful indication that science is working against the harsher fluctuations.

* * *

The Struggle to Unite Europe. Arnold J. Zurcher. 254 pp. New York University Press. \$5.00.

•"In Europe, at least, the finger of time may well write finis to the isolated state system that comes down from the 18th century The European movement has supplied or will supply the alternative . . ." Prof. Zurcher captures the mood and dynamism of Europe in a timely moment. His valuable study combines a deep sense of the continental tradition with a keen view for future possibilities. The author sees measured reason for hope in the new European spirit and the leadership of such good Europeans as Richard Coudenhove-Kalergi, Winston Churchill, Jean Monnet and Konrad Adenauer.

* * *

The Skills of the Economist. Kenneth E. Boulding. 193 pp. Cleveland: Howard Allen. \$3.50.

•Prof. Boulding proves in these lectures, given in Brazil in 1953, that a good economist must be much more than an economist. The good econo-

mist, he says, must be able to manage the disorderly phenomena of humanity in terms of both the rigors of economic reasoning and such irrational factors as taste, love and religion. He insists, for example, that labor is a commodity—and much more than a commodity. Prof. Boulding demonstrates his adeptness in both worlds by translating human situations into graph form without losing their humanity. One 1953 comment deserves repetition today: "Indeed, it may be that the best safeguard against depression is radical policies carried out by conservative governments."

* * *

Prosperity through Competition.

Ludwig Erhard. 260 pp. New York: Frederick A. Praeger. \$5.00.

•Germany's Economics Minister, Dr. Erhard, here describes the "economics of the German miracle" which he did such a lot to bring about. A fervent and consistent champion of the free market economy, Dr. Erhard's success in Germany has done a lot to make the ideas of free competition once more popular in the rest of Western Europe. While his book says little that he has not said before—indeed, Dr. Erhard quotes almost exclusively from his own speeches—what he has to say is definitely worth repeating.

* * *

The Capitalist Manifesto. Louis O. Kelso and Mortimer J. Adler. 265 pp. New York: Random House. \$3.75.

•Clearly intended as an answer to the *Communist Manifesto*, this book falls rather short of its commendable objectives. Although ostensibly a "revolutionary plan for a capitalistic distribution of wealth," its

recommendations are not so much revolutionary as impossible for the 20th century. Its aim is to make as many Americans as possible real capitalists, instead of anonymous cogs in the production machine of faceless and powerless investors in our large corporations. But the authors' ideas on how to accomplish this—elimination of the corporate income tax, legislation requiring "mature" corporations to pay out 100 per cent of their net earnings to stockholders, etc.—are completely out of touch with the requirements of the machine age. This is a pity because Kelso and Adler make a strong case against the increasing institutionalization of American capitalism. But their identification of this trend with "socialization" is a sweeping indictment of trends which, whatever else they may have done, have contributed markedly to the economic miracle of 20th-century America.

* * *

Soviet Marxism: A Critical Analysis.

Herbert Marcuse. 271 pp. New York: Columbia University Press. \$4.50.

•Dr. Marcuse analyzes the Soviet version of Marxism under Lenin, Stalin and Khrushchev. It is his contention that in spite of the dizzying contortions that ideology has undergone since 1917, it would be wrong for the West to regard it as a mere cover-up for power politics. In many respects, he believes, the Soviet ideology represents the Soviet reality. Indeed, Dr. Marcuse contends that industrialization has forced the Soviets to make many of the ideological adjustments that have also been forced upon the West. But whereas the West admits the imperfections of its ideology, the Soviets do not. ■



Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is Good. Answers on page 66.

- (1) The average work week of the Soviet worker has been reduced to 40 hours.

True ☐ False ☐

- (2) The annual financial rewards of organized crime equal the annual net profits of General Motors.

True ☐ False ☐

- (3) A large percentage of the recent migrants to California are elderly people.

True ☐ False ☐

- (4) Consumer spending has been on a persistent decline since mid-1956.

True ☐ False ☐

- (5) In West Germany today, the formation of cartels is hampered by severe legislative restrictions.

True ☐ False ☐

- (6) Profit-sharing suggestions have traditionally come from management.

True ☐ False ☐

- (7) With the initial development of artificial silk, the demand for natural silk quickly fell.

True ☐ False ☐

- (8) Under present labor relations law, there are limits on the amount of wage benefits a union may demand.

True ☐ False ☐

- (9) In the middle of the 19th century, science emerged as a recognized profession in the United States.

True ☐ False ☐

- (10) The production of natural gas is considered a service industry.

True ☐ False ☐

- (11) Some corporations have spent as much as 50 million dollars a year on education.

True ☐ False ☐

- (12) The Federal Reserve Board is committed to support the price of government bonds.

True ☐ False ☐

DEPT. of BETTER M^OUSETRAPS

Personal Business: Hoodlums will be plagued by a 2½-inch portable alarm that blasts a ferocious howl at finger-tip pressure. . . For the racy set, a binocular flask that holds one-half pint of liquid in each side. . . A butcher's steel pocket-knife sharpener that can also be used on fishing hooks and tools. . . For those still wary of bank holidays, a barrel-shaped plastic bank that holds up to 1,000 dollars in change and notes.

* * *

Around the House: Luau torches that add an authentic Hawaiian atmosphere to garden parties, patio feasts or outdoor decorations. . . An automatic phone light that eliminates the eyestrain of dialing by going on as soon as you lift the receiver. . . To help you serve, hot plates that are inlaid with textured cork and finished in solid birchwood. . . A portable electric drink-mixer with a built-in motor that also mixes soups, sauces and dressings. . . A portable cellar drain pump with large-diameter ports that will handle solids.

* * *

On the Waterfront: A compact snub-nosed paddle boat that can easily be carried in the car trunk or station wagon. . . A tiny battery-powered radio direction finder that will chart your boat's course for days at a time. . . A water-ski towing device that eliminates side drag and propeller fouling by the tow rope. . .

A fishing reel that has adjustable antibacklash control. . . Lightweight plastic minnow buckets that absorb enough oxygen to keep minnows alive indefinitely; they are seamless, easy to clean and rustproof.

* * *

Medical Highlights: An electronic device that measures blood loss during surgery. . . A hospital drug dispenser that holds 20 tablets, releasing them one at a time when its plunger is pressed. . . Veterinarians and zookeepers can soothe the savage beast with a tranquilizer gun that shoots a syringe full of vaccines, antibiotics or tranquilizers into the patient.

* * *

Behind the Wheel: An auto light switch that keeps your headlights on long enough for you to walk 200 feet and then shuts them off automatically. . . A self-adhering, foam-rubber pad that presses against the car's gas pedal—gives foot-driving comfort, reduces driving fatigue and eliminates shoe scuffing.

* * *

From the World of Industry: Nylon collapsible tanks that store 15,000 gallons of liquids when filled and can be rolled into compact bundles when empty. . . A stump remover that does not tear up the lawn; it reduces wood to sawdust with a rotary saw that can gouge 15 inches below the ground. . . A lightning-arrester antenna that protects an aircraft's radio and associated gear at high altitudes. . . Inflatable cushions that fill voids in loaded freight cars, trucks and ship compartments to hold the cargo in position. . . A level that can measure incline down to the thinness of a dime.

* * *

Write to CHALLENGE magazine for additional information. ■